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COUNSEL FOR DEBTORS AND DEBTORS IN POSSESSION

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re:	§	**Chapter 11 Cases**
	§	
R.E. LOANS, LLC,	§	**Case No. 11-35865-BJH**
R.E. FUTURE, LLC,	§	
CAPITAL SALVAGE, a California corporation,	§	**(Jointly Administered)**
	§	
	§	
Debtors.	§	

DISCLOSURE STATEMENT FOR THE DEBTORS' SECOND AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION, DATED APRIL 26, 2012

NOTICE

THE BANKRUPTCY COURT HAS NOT YET APPROVED THIS DISCLOSURE STATEMENT PURSUANT TO 11 U.S.C. § 1125. THEREFORE, IT IS NOT TO BE RELIED UPON OR USED IN CONNECTION WITH THE SOLICITATION OF VOTES FOR OR AGAINST ANY CHAPTER 11 PLAN FILED IN THE BANKRUPTCY

The chapter 11 debtors are R.E. Loans, LLC, a California limited liability company ("**R.E. Loans**"), Capital Salvage, a California corporation ("**Capital Salvage**"), and R.E. Future, LLC, a California limited liability company ("**R.E. Future**" collectively with R.E. Loans and Capital Salvage, the "**Debtors**"). The Debtors submit this Disclosure Statement in connection with the solicitation of acceptances and rejections with respect to the Debtors' First Amended Joint Chapter 11 Plan of Reorganization (as amended, the "**Plan**"), a copy of which is attached hereto as **Exhibit "A"**. Capitalized terms used and not otherwise defined herein will have the same meanings as ascribed to them in the Plan.

The purpose of this Disclosure Statement is to set forth such information regarding the history of the Debtors, their businesses, the chapter 11 Cases, and the Plan to enable the holders of Claims who are entitled to vote on the Plan to make an informed judgment regarding whether they should vote to accept or reject the Plan.

By Order dated _____, 2012 (the "**Disclosure Statement Order**"), the Court, after notice and a hearing, approved this Disclosure Statement as containing "adequate information" to permit affected Creditors and Interest Holders to make an informed judgment in exercising their rights to vote to accept or reject the Plan, and authorized its use in connection with the solicitation of votes with respect to the Plan. THE COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT MEAN THAT THE COURT RECOMMENDS EITHER ACCEPTANCE OR REJECTION OF THE PLAN. No solicitation of votes may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. In voting on the Plan, Creditors and Interest Holders should not rely on any information relating to the Debtors, other than that contained in this Disclosure Statement, the Plan, and all exhibits hereto and thereto, or such other materials approved by the Court.

The Plan divides Creditors and Holders of Interests into Classes based on their legal rights and interests and provides for the satisfaction of Claims from the Debtors' Assets. The Holders of Interests in R.E. Loans will not receive or retain anything on account of their Interests and the equity in the Reorganized R.E. Loans will be transferred to the Liquidating

Trust for the benefit of the Debtors' creditors. The Reorganized Debtors will be re-vested with all of the REO Property and the Notes Receivable owned by the Debtors, subject to the Liens provided for in the Plan.

Only Holders of Claims or Interests allowed under section 502 of the Bankruptcy Code, or temporarily allowed for voting purposes under Bankruptcy Rule 3018, whose Claims or Interests are in those Classes of Claims that are "impaired" (as defined in section 1124 of the Bankruptcy Code) under the Plan are entitled to vote to accept or reject the Plan. A Class is Impaired if the legal, equitable, or contractual rights of the Claims or Interests in the Class are altered. Classes of Interests who will receive nothing under the Plan are conclusively presumed to have voted to reject the Plan. Classes of Claims that are not Impaired are conclusively presumed to have voted to accept the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, are not entitled to vote on the Plan. The following charts summarize which Classes of Claims and Interests are Impaired and which Classes of Claims are Unimpaired under the Plan.

CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS

The Plan classifies Claims and Interests—except for Administrative Claims and Priority Tax Claims, which are not classified—for all purposes, including voting, Confirmation, and distribution under the Plan. A Claim or Interest is classified in a particular Class only to the extent that the Claim or Interest falls within the Class description. To the extent that part of the Claim or Interest falls within a different Class description, that portion of the Claim or Interest is classified in that different Class. The following table summarizes the Classes of Claims and Interests under the Plan:

Class	Description	Status	Entitled to Vote?
Claims and Interests against R.E. Loans are classified as follows:			
REL 1	Wells Fargo's Prepetition Claims	Impaired	Yes
REL 2	Other Secured Claims	Unimpaired	No
REL 3	Secured Tax Claims	Impaired	Yes
REL 4	Priority Non-Tax Claims	Impaired	Yes
REL 5	General Unsecured Claims	Impaired	Yes
REL 6	Intercompany Claims	Impaired	Yes
REL 7	Most Subordinated Claims	Impaired	No
REL 8	Claims of Noteholders and DSI	Impaired	Yes
REL 9	Claims of DSI (if the Bankruptcy Court compels separate Classification)	Impaired	Yes
REL 9	Interests in R.E. Loans	Impaired	No
Claims and Interests against Capital Salvage are classified as follows:			
CS 1	Wells Fargo's Prepetition Claims	Impaired	Yes
CS 2	Other Secured Claims	Unimpaired	No
CS 3	Secured Tax Claims	Impaired	Yes
CS 4	Priority Non-Tax Claims	Impaired	Yes
CS 5	General Unsecured Claims	Impaired	Yes
CS 6	Intercompany Claims	Impaired	Yes
CS 7	Subordinated Claims	Impaired	No
CS 8	Interests in Capital Salvage	Impaired	No
Claims and Interests against R.E. Future are classified as follows:			
REF 1	Wells Fargo's Prepetition Claims	Impaired	Yes
REF 2	Other Secured Claims	Unimpaired	No
REF 3	Secured Tax Claims	Impaired	Yes
REF 4	Priority Non-Tax Claims	Impaired	Yes
REF 5	General Unsecured Claims	Impaired	Yes
REF 6	Intercompany Claims	Impaired	Yes
REF 7	Subordinated Claims	Impaired	No
REF 8	Interests in R.E. Future	Impaired	No

For convenience, collective references to all three Classes of a given type of Claim are referred to collectively by number alone. Thus, for example, a reference to "all Class 2 Claims" refers collectively to all Claims in Classes REL 2, REF 2 and CS 2.

If you are a Holder of a Claim in an impaired Class, accompanying this Disclosure Statement is a Ballot for casting your vote(s) on the Plan and a pre-addressed

envelope for the return of the Ballot. BALLOTS FOR ACCEPTANCE OR REJECTION OF THE PLAN ARE BEING PROVIDED ONLY TO HOLDERS OF CLAIMS IN THE FOLLOWING CLASSES: 1, 3, 4, 5, REL 8, AND REL 9. If you are the holder of a Claim or Interest in said Class(es), and (a) did not receive a Ballot, (b) received a damaged or illegible Ballot, or (c) lost your Ballot, or if you are a party in interest and have any questions concerning this Disclosure Statement, any of the exhibits hereto, the Plan, or the voting procedures in respect thereof, please contact Stutman, Treister & Glatt Professional Corporation, Attn: Kendra Johnson, 1901 Avenue of the Stars, 12th Floor, Los Angeles, California 90067; Telephone: (310) 228-5600; E-mail: kjohnson@stutman.com.

THE DEBTORS, AS PROPONENTS OF THE PLAN, RECOMMEND THAT THE HOLDERS OF CLAIMS IN EVERY CLASS ENTITLED TO VOTE, VOTE TO ACCEPT THE PLAN.

VOTING ON THE PLAN, BY EACH HOLDER OF A CLAIM, IS IMPORTANT. EACH SUCH CREDITOR SHOULD READ THIS DISCLOSURE STATEMENT WITH ITS EXHIBITS, INCLUDING THE PLAN, IN ITS ENTIRETY. AFTER CAREFULLY REVIEWING THESE DOCUMENTS, PLEASE FOLLOW THE DIRECTIONS FOR VOTING CONTAINED ON THE BALLOT, AND RETURN THE BALLOT IN THE ENVELOPE PROVIDED. TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED BY _____, 2012, AT 5:00 P.M. (THE "**VOTING DEADLINE**") AT THE ADDRESS SET FORTH ON THE PRE-ADDRESSED ENVELOPE ENCLOSED WITH YOUR BALLOT.

Votes cannot be transmitted orally or by e-mail. Accordingly, you are urged to return your signed and completed Ballot promptly. Ballots not received by the Voting Deadline and unsigned Ballots will not be counted. Any executed Ballots that are timely received, but which do not indicate either an acceptance or rejection of the Plan, will be deemed to constitute an acceptance of the Plan.

The Court has scheduled a hearing on confirmation of the Plan for _____, 2012 at ___:_____ __.m. (Central Time) at the United States Bankruptcy Court

for the Northern District of Texas, Dallas Division, 14th floor, Courtroom 2, 1100 Commerce Street, Dallas, Texas 75252-1496. Any objections to confirmation of the Plan must be in writing and filed with the Court, and served so as to be received by 5:00 p.m. (Central Time) on _____, 2012, upon the following: (1) counsel to the Debtors, Stutman, Treister & Glatt, 1901 Avenue of the Stars, 12th Floor, Los Angeles, California 90067, Attn: Jeffrey C. Krause; (2) counsel to the Debtors, Gardere Wynne Sewell LLP, 3000 Thanksgiving Tower, 1601 Elm Street, Dallas, Texas 75201-4761, Attn: Holland Neff O'Neil; (3) Office of the United States Trustee, Earl Cabell Federal Building, 1100 Commerce Street, Room 976, Dallas, Texas 75242; (4) counsel to Wells Fargo, David Weitman, K&L Gates LLP, 1717 Main Street, Suite 2800, Dallas, Texas 75201; and (5) counsel to the Noteholders Committee, Charles R. Gibbs, Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201.

I.

DISCLAIMER

THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ THIS DOCUMENT WITH CARE. THE PURPOSE OF THIS DISCLOSURE STATEMENT IS TO PROVIDE "ADEQUATE INFORMATION" OF A KIND, AND IN SUFFICIENT DETAIL, AS FAR AS IS REASONABLY PRACTICABLE IN LIGHT OF THE NATURE AND HISTORY OF THE DEBTORS AND THE CONDITION OF THE DEBTORS' BOOKS AND RECORDS, THAT WOULD ENABLE A HYPOTHETICAL REASONABLE INVESTOR, TYPICAL OF HOLDERS OF CLAIMS OR INTERESTS OF THE RELEVANT CLASS, TO MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN. SEE 11 U.S.C. § 1125(a). UNLESS OTHERWISE INDICATED, THE DATE OF ALL OF THE FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT IS AS OF DECEMBER 31, 2011.

FOR THE CONVENIENCE OF CREDITORS AND INTEREST HOLDERS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN, BUT THE

PLAN ITSELF QUALIFIES ANY SUMMARY. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING.

NO REPRESENTATIONS CONCERNING THE DEBTORS, THEIR FINANCIAL CONDITION, OR ANY ASPECT OF THE PLAN ARE AUTHORIZED BY THE DEBTORS, OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE, WHICH ARE OTHER THAN AS CONTAINED IN, OR INCLUDED WITH, THIS DISCLOSURE STATEMENT, SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION.

THE FINANCIAL INFORMATION CONTAINED HEREIN, UNLESS OTHERWISE INDICATED, IS UNAUDITED. THE DEBTORS ARE UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT INACCURACIES. GREAT EFFORT, HOWEVER, HAS BEEN MADE TO ENSURE THAT ALL SUCH INFORMATION IS PRESENTED FAIRLY.

ALTHOUGH A COPY OF THIS DISCLOSURE STATEMENT HAS BEEN SERVED ON THE SECURITIES AND EXCHANGE COMMISSION ("**SEC**") AND THE SEC HAS BEEN GIVEN AN OPPORTUNITY TO OBJECT TO THE ADEQUACY OF THIS DISCLOSURE STATEMENT, THIS DISCLOSURE STATEMENT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR APPLICABLE STATE SECURITIES LAWS. NEITHER THE SEC NOR ANY STATE REGULATORY AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT, THE EXHIBITS HERETO, OR THE STATEMENTS CONTAINED HEREIN.

THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS LEGAL, BUSINESS, OR TAX ADVICE. ANY TAX ADVICE HEREIN WAS NOT INTENDED TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE

OF AVOIDING ANY TAX PENALTIES THAT MAY BE IMPOSED ON ANY PERSON. THERE IS NO LIMITATION IMPOSED ON ANYONE READING THIS DISCLOSURE STATEMENT ON DISCLOSURE OF THE TAX TREATMENT OR TAX STRUCTURE OF ANY TRANSACTION. NOTHING IN THIS DISCLOSURE STATEMENT MAY BE USED OR REFERRED TO IN PROMOTING, MARKETING OR RECOMMENDING A PARTNERSHIP OR OTHER ENTITY, INVESTMENT PLAN, OR ARRANGEMENT TO ANY PERSON. ALL CREDITORS AND/OR INTEREST HOLDERS SHOULD CONSULT THEIR OWN LEGAL COUNSEL AND/OR ACCOUNTANT(S) AS TO LEGAL, TAX, AND OTHER MATTERS CONCERNING THEIR CLAIMS OR INTERESTS.

II.

OVERVIEW OF THE CHAPTER 11 PROCESS AND THE PLAN

A. The Chapter 11 Process.

Chapter 11 of the Bankruptcy Code contains numerous provisions, the general effect of which is to provide debtors with "breathing space" within which to propose a restructuring of their obligations to third parties. The filing of a chapter 11 bankruptcy petition creates a bankruptcy "estate" comprising all of the property interests of the debtor. Unless a trustee is appointed by the Court for cause (no trustee has been appointed in these Cases), a debtor remains in possession and control of all its assets as a "debtor in possession." The debtor may continue to operate its business in the ordinary course on a day-to-day basis without Court approval. Court approval is only required for various enumerated kinds of transactions (such as certain financing transactions) and transactions out of the ordinary course of a debtor's business. The filing of the bankruptcy petition gives rise to what is known as the "automatic stay" which, generally, enjoins creditors from taking any action to collect or recover obligations owed by a debtor prior to the commencement of a chapter 11 case. The Court can, however, grant relief from the automatic stay, under certain specified conditions or for cause.

A chapter 11 debtor may propose a plan providing for the reorganization of the debtor. A plan may either be consensual or non-consensual and provides, among other things,

for the treatment of the claims of creditors and interests of equity holders.

B. Overview of the Debtors' Proposed Joint Plan.

The following is a brief overview of the material provisions of the Plan and is qualified in its entirety by reference to the full text of the Plan. For a more detailed description of the terms and provisions of the Plan, see Article IV below, entitled "The Chapter 11 Plan."

The Plan that is described in this Disclosure Statement is a reorganization Plan. The Plan is intended to maximize the recoveries of Creditors by (1) re-vesting all Assets of the Debtors, other than Causes of Action, in the Reorganized Debtors, (2) issuing the New Equity Interests in Reorganized R.E. Loans to the Liquidating Trust for the benefit of Creditors, and (3) transferring the Causes of Action to the Liquidating Trust, which shall investigate and prosecute or settle such Causes of Action and distribute the proceeds thereof to the Beneficiaries. The Liquidating Trustee will be an independent third party approved by the Court.

The Plan designates three series of Classes of Claims and Interests (one for each Debtor), which include all Claims against, and Interests in each of the Debtors. These Classes take into account the differing nature and priority under the Bankruptcy Code of the various Claims against and Interests in the Debtors.

The Plan is intended to resolve disputes that have been raised with respect to the Claims of the Noteholders through the Plan Compromise. The largest group of creditors holding claims against the Debtors consists of Noteholders, who hold Exchange Notes that are secured by the Exchange Agreement Security Agreement. The Exchange Notes were issued to former members of R.E. Loans. DSI was appointed the collateral agent for the Noteholders. DSI resigned as the result of non-payment of its fees prior to the Petition Date, and DSI has now filed objections to the claims of the Noteholders, contending that their claims are unenforceable under California law and Bankruptcy Code § 544. If the Exchange Notes are enforceable, they are secured by a Second Priority Lien on substantially all of the Debtors' assets. If DSI's objection is more meritorious, the Exchange Notes may be unenforceable or subordinated to the claims of all other creditors except Subordinated Claims. DSI contends that the Noteholders' Claims should

be entirely disallowed. The Debtors contend that even if DSI's grounds for objecting to the Noteholders' Claims were well-founded and even if the Plan Compromise is not implemented, the Noteholders would be entitled to subordinated Claims and their Claims should not be entirely disallowed.

The Plan proposed by the Debtors provides for the Plan Compromise, which will settle the priority dispute if and only if REL Class 8 (the Noteholders and DSI) vote to accept the Plan. If REL Class 8 votes to accept the Plan, the terms of the Plan Compromise will then be implemented are generally as follows:

(1) The Lien granted pursuant to the Exchange Agreement Security Agreement will be released,

(2) Subject to the reservation of rights under Paragraph 3, below, each party with an Allowed REL Class 8 Claim will receive a Beneficial Interest in the Liquidating Trust, which will entitle it to share *Pro Rata* with General Unsecured Creditors, and REL Class 8 Claims will not be disallowed or subordinated, as has been requested by DSI. The terms of the Plan Compromise are set forth in greater detail in Section 4.7 of the Plan; and

(3) The Plan Compromise will not waive or modify any Cause of Action that may exist to recover payments made after the Exchange Agreement to any Holder of a Class 8 Claim and/or to seek disallowance of any Class 8 Claim based on the existence of payments that are recoverable or avoidable as set forth in Bankruptcy Code § 502(d), and any such Causes of Action or Claims objection rights will be vested in the Liquidating Trust. The Plan defines such rights as the "Potential Recovery Remedies."

If REL Class 8 votes to reject the Plan, the Plan Compromise will not be implemented and the Debtors, at or prior to the confirmation of the Plan, will seek to subordinate the claims of REL Class 8 to all General Unsecured Claims, as a part of the Plan confirmation process.

The Debtors contend that the claims of DSI are substantially similar to the claims of the Noteholders for which DSI served as collateral agent until it resigned and, therefore, DSI

should receive the same treatment as the claims of the Noteholders. DSI contends that it is entitled to better treatment than the Noteholders. If the Bankruptcy Court determines that DSI's claims are not substantially similar to the claims of the Noteholders, DSI's claim will be separately classified and treated as an REL Class 9 claim. The Debtors reserve the right to object to any and all claims submitted by DSI on the merits.

The following table (the "**Plan Summary Table**") summarizes the treatment of Claims and Interests under the Plan. The Debtors reserve the right to dispute the validity or amount of any Claim or Interest that has not already been Allowed by the Court or by agreement of the parties.

No representation can be, or is being, made with respect to the estimated Allowed amount of Claims in each Class is accurate.

SUMMARY OF CLAIMS AND INTERESTS UNDER THE PLAN

Class	**Claim/Interest**	**Treatment**
n/a	Administrative Claims against all Debtors	Each holder of an Allowed Administrative Claim shall receive Cash in an amount equal to such Allowed Administrative Claim on the later of (i) the Effective Date, and (ii) the fifteenth (15th) Business Day after such Administrative Claim becomes an Allowed Administrative Claim; provided, however, that Ordinary Course Administrative Claims will be paid in accordance with the terms and conditions of the particular transactions.
	DIP Financing Claims	Wells Fargo, as the Holder of the Allowed DIP Financing Claims, shall be indefeasibly paid in full in cash on the Effective Date from the proceeds of the Wells Fargo Exit Facility.
n/a	Priority Tax Claims against all Debtors	The Debtors do not believe that there are any Priority Tax Claims against the Debtors. Except to the extent that a Holder of an Allowed Priority Tax Claim has been paid by the Debtors before the Effective Date, each Holder of an Allowed Priority Tax Claim shall receive Cash in an amount equal to such Allowed Priority Tax Claim on the later of (i) the Effective Date and (ii) the fifteenth (15th) Business Day after such Priority Tax Claim becomes an Allowed Priority Tax Claim.
	CLASSES	
REL Class 1 REF Class 1 CS Class 1	Wells Fargo R.E. Loans Secured Claims	Wells Fargo, as the Holder of the Class 1 Claims, shall be refinanced and deemed to be indefeasibly paid in full in cash on the Effective Date through the Wells Fargo Exit Facility. At this time, the Debtors anticipate that Wells Fargo will provide the Wells Fargo Exit Facility on

Class	Claim/Interest	Treatment
		such terms and conditions as are acceptable in writing to Wells Fargo and the Reorganized Debtors. The Debtors reserve the right to modify the Plan to provide for an exit facility from a lender other than Wells Fargo. Wells Fargo has demanded that if the Debtors obtain an exit facility from another lender, the Debtors are required to provide Wells Fargo with $10 million of security to secure Wells Fargo's indemnification claims under its Prepetition Loan Documents.
REL Class 2 REF Class 2 CS Class 2	Other Secured Claims	The Debtors believe there are no Allowed Claims in Class 2. If any such Claims exist, they will not be impaired under the Plan.
REL Class 3 REF Class 3 CS Class 3	Secured Tax Claims	Allowed Class 3 Claims will retain their Liens and will be paid interest only at the statutory rate (as required by Bankruptcy Code § 511) on a quarterly basis following the Effective Date of the Plan until the five (5) year anniversary of the Petition Date, at which time the entire principal balance will be all due and payable. As REO Property that secures Allowed Class 3 Claims is sold, the entire balance of each Class 3 Claim secured by each REO Property sold shall be paid in full in Cash from the sales proceeds securing the payment of the respective Allowed Class 3 Claims.
REL Class 4 REF Class 4 CS Class 4	Priority Non-Tax Claims	The Debtors believe that there are no Class 4 Claims. Each Allowed Priority Non-Tax Claim will be paid in Cash in full the amount of the R.E. Loans Allowed Priority Non-Tax Claim on the later of (i) the Effective Date and (ii) the fifteenth (15^{th}) Business Day after such date that the Claim becomes an Allowed Priority Non-Tax Claim.
REL Class 5 REF Class 5 CS Class 5	General Unsecured Claims	Each holder of an Allowed General Unsecured Claim shall receive a Beneficial Interest, based on which it shall receive from the Liquidating Trust a *Pro Rata* Distribution of the net Trust Proceeds. If REL Class 8 votes to accept the Plan, the Noteholders and DSI will also receive Beneficial Interests and, therefore, the *Pro Rata* calculation for distribution of the net Trust Proceeds will be based upon the total claims in Class 5 and REL Class 8. If REL Class 8 votes to reject the Plan, the holders of Allowed REL Class 8 Claims will not share *Pro Rata* with Class 5. The Liquidating Trustee shall make Distributions to the holders of the Beneficial Interests from the net Liquidating Trust Proceeds in accordance with the provisions of the Liquidating Trust Agreement, and as provided for under the Plan and the Confirmation Order.
REL Class 6 REF Class 6 CS Class 6	Intercompany Claims (excluding Intercompany Notes)	The Debtors believe there are no material Intercompany Claims (which do not include Intercompany Notes). Any such Intercompany Claims will be forgiven and released without consideration.
REL Class 7 REF Class 7 CS Class 7	Subordinated Claims	Class 7 subordinated Claims include securities fraud claims and other claims subject to subordination pursuant to Bankruptcy Code § 510(b). Because such Claims will be subordinate to the Noteholders' Claims regardless of the treatment of the Noteholders' Claims, and the assets of the Reorganized Debtors and the Liquidating Trust will not be sufficient

Class	Claim/Interest	Treatment
		to pay the Noteholders' Claims in full, Class 7 will receive nothing under the Plan.
REL Class 8	Claims of Noteholders and DSI (unless DSI must be separately classified)	If Class 8 votes to accept the Plan, the Plan Compromise will be implemented. Subject to the Potential Recovery Remedies, the Holders of Allowed Claims in Class 8 will receive Beneficial Interests in the Liquidating Trust, entitling them to a *Pro Rata* Distribution of the net Trust Proceeds, together with Class 5 (General Unsecured Claims), in exchange for the waiver of the Liens granted pursuant to the Exchange Agreement Security Agreement. The Liquidating Trust will have the right to seek to recover all payments made to Holders of Class 8 Claims after the Exchange Agreement. If Class 8 votes to reject the Plan, the holders of Allowed Class 8 Claims will receive Subordinated Trust Interests, which will entitle them to a *Pro Rata* Distribution of any net Trust Proceeds only after the recipients of Beneficial Interests (General Unsecured Claims) have been paid in full, with interest.
REL Class 9	DSI's Claim (if separate classification is required)	The Debtors believe that it is appropriate to classify DSI's Claims as collateral agent in the same class with the Claims of the Noteholders for whom it acted as collateral agent. If, however, the Court requires separate classification of DSI's Claim, that Claim will be in REL Class 9 and will receive the following treatment: (1) it will be secured by a junior Lien on substantially all of the assets of Reorganized R.E. Loans, subordinate to the Wells Fargo Exit Facility and the Liens granted to Wells Fargo securing the same and the Secured Tax Claims; (2) it will accrue interest at the rate of 6% per annum; and (3) it will be payable on the earlier of five years after the Effective Date or one year after the Wells Fargo Exit Facility is indefeasibly paid in full in Cash.
REL Class 10	R.E. Loans Interests	Holders of Class REL Class 10 Interests shall receive nothing and shall be cancelled as of the Effective Date. On the Effective Date, the Liquidating Trustee shall become the sole member of Reorganized R.E. Loans.
CS Class 8	Capital Salvage Interests	The Capital Salvage Interests shall remain unaltered under the Plan, but they will be owned by Reorganized R.E. Loans, which in turn will be owned by the Liquidating Trust.
REF Class 8	R.E. Future Interests	The R.E. Future Interests shall remain unaltered under the Plan, but they will be owned by Reorganized R.E. Loans, which in turn will be owned by the Liquidating Trust.

THE TREATMENT AND DISTRIBUTIONS PROVIDED TO HOLDERS OF ALLOWED CLAIMS AND INTERESTS PURSUANT TO THE PLAN ARE IN FULL AND COMPLETE SATISFACTION OF THE ALLOWED CLAIMS AND INTERESTS ON ACCOUNT OF WHICH SUCH TREATMENT IS GIVEN AND DISTRIBUTIONS

ARE MADE.

Administrative Priority Claims, Priority Taxes, and other Priority Claims will be paid in full in Cash on the Effective Date or as soon as each individual Claim is Allowed. These payments will be funded through draws under the Wells Fargo Exit Facility.

The Wells Fargo Allowed Secured Claims will be indefeasibly paid in full in cash with the proceeds of the Wells Fargo Exit Facility, and the Wells Fargo Exit Facility will be indefeasibly paid in full in cash prior to any other Distributions by the Reorganized Debtors.

Interest only on the Allowed Secured Tax Claims held by taxing authorities for real property taxes secured by the REO Property by the Debtors will be paid quarterly following the Effective Date at the statutory rate over five years, with taxes on each parcel fully paid as and when such real estate is sold with the sales proceeds securing the payment of the applicable Allowed Secured Tax Claim.

The relative rights of the Noteholders and the Holders of General Unsecured Claims will depend on whether the Noteholders vote to accept the Plan and implement the Plan Compromise.

No payments will be made by the Reorganized Debtors on account of any Allowed Claims (other than Secured Tax Claims) until the Wells Fargo Exit Facility is indefeasibly paid in full in Cash. Thereafter, the Reorganized Debtors will use the net Cash proceeds (after payment of Secured Tax Claims on the REO Property sold) realized from any future dispositions to establish a reserve for funding ongoing costs of operating the Reorganized Debtors and the Liquidating Trust, and administering the Collateral. Any surplus will be distributable to the Liquidating Trust.

The Liquidating Trust will be initially funded with an amount to be agreed upon by the Debtors and Wells Fargo, which shall be funded through an advance under the Wells Fargo Exit Facility.

In addition, if 100% of the Noteholders check the box to give the Wells Fargo Group a voluntary release, subject to the prior written approval of the Wells Fargo Credit

Committee, Wells Fargo would pay an additional $3 million to the Liquidating Trust in exchange for the Voluntary Third-Party Release described in Section 10.7 of the Plan. The Liquidating Trustee will distribute the $3 million to the Noteholders *Pro Rata*. Wells Fargo will be entitled to repayment of $1.5 million from any distributions that the Liquidating Trust would otherwise make to the consenting Noteholders.

In addition to realizing on the equity in the assets to be vested in the Reorganized Debtors, the Liquidating Trust will pursue any Causes of Action that the Liquidating Trustee concludes it is cost effective to pursue.

The net proceeds of the Causes of Action, after paying the expenses of the Liquidating Trust, will be distributed to the Holders of Beneficial Interests. Holders of Allowed General Unsecured Claims will receive Beneficial Interests. In addition to the holders of Allowed General Unsecured Claims, the holders of Allowed Claims in REL Class 8 will also receive Beneficial Interests, if REL Class 8 votes to accept the Plan and adopt the Plan Compromise. Under the Plan Compromise, the holders of Allowed REL Class 8 Claims will release their right to assert a junior Lien on R.E. Loans' assets, in exchange for which they will receive Beneficial Interests, and the Debtors and the Liquidating Trust will settle and waive any right to subordinate or disallow the Claims of the Noteholders or DSI as constructive fraudulent transfers or improper distributions to former members. Under the Plan Compromise, the Liquidating Trustee will retain the right to enforce Potential Recovery Remedies against Holders of Class 8 Claims who received cash payments after the Exchange Agreement, as though no settlement had been implemented. Under the Plan Compromise, the allowance of General Unsecured Claims for the amounts owing to Holders of Class 8 Claims as of the Petition Date (as a compromise between allowing them Secured Claims and asserting that their Claims should be subordinated or disallowed as constructive fraudulent conveyance or improper distributions to former members, under the California Corporations Code), is without prejudice to the Liquidating Trustee's right to assert Potential Recovery Remedies.

As a result, if Class 8 votes to accept the Plan and to implement the Plan

Compromise, Beneficial Interests will be issued to both to General Unsecured Creditors with Allowed Claims and the holders of Allowed Claims in Class 8, and these groups will share *Pro Rata* in the net Trust Proceeds.

If REL Class 8 rejects the Plan, then the Debtors will seek to subordinate, at or prior to the Confirmation of the Plan, REL Class 8 Claims, which if successful would result in the net proceeds from the Causes of Action will first being distributed to all Holders of Allowed General Unsecured Claims on account of the Beneficial Interests, and only then will any surplus be distributed to the Noteholders and DSI on account of their Subordinated Trust Interests.

The Debtors believe that it is appropriate to classify in a single class (REL Class 8) the Claims of the Noteholders and the indemnification claims being asserted by DSI, which served as the collateral agent for the Noteholders. Under the Exchange Agreement Security Agreement, the Noteholders and DSI were jointly defined as the "Secured Parties." There are no provisions in the Exchange Agreement Security Agreement differentiating between the rights of DSI and the rights of the Noteholders thereunder, and the Exchange Agreement Security Agreement expressly provided that at any time more than 50% of the Noteholders could vote to alter the rights of all of the "Secured Parties." The Debtors have, however, been informed by DSI that it contends that its rights are not substantially similar to the rights of the Noteholders and, therefore, its Claim must be separately classified. While the Debtors disagree, if the Bankruptcy Court accepts DSI's contention, DSI's indemnification Claims will be classified in REL Class 9 and treated as a junior secured Claim under the Plan.

III.

COMPANY HISTORY

A. The Organization of the Debtors.

The Debtors are (1) R.E. Loans, (2) Capital Salvage, and (3) R.E. Future. The ownership and inter-relationships between the Debtors and their affiliates are described below.

1. R.E. Loans: Primary Operating Company.

R.E. Loans was formed in 2002 as the successor entity resulting from the merger

of nine limited partnerships. It is the primary operating entity. It held all Notes Receivable, which had aggregate unpaid principal balances as of the Petition Date of approximately $636 million. R.E. Loans is one of the borrowers under the Prepetition Wells Fargo Facility and is the sole obligor on the Exchange Notes.

2. B-4 Partners: Member and Former Manager of R.E. Loans.

B-4 Partners was the sole manager of R.E. Loans from the time R.E. Loans was formed in 2002, through the Petition Date. B-4 Partners has been the sole member of R.E. Loans at all times from and after November 2007, when the "Exchange Offer" described in Section III.C. below was consummated. B-4 Partners is also a borrower under the Prepetition Wells Fargo Facility.

Walter Ng, Kelly Ng, Barney Ng, and Bruce Horwitz were the members of B-4 Partners, until December of 2008.[1] Each member owned 25% of B-4 Partners. Walter Ng was a manager of B-4 Partners at all relevant times prior to the commencement of Walter Ng's personal chapter 11 case on May 12, 2011. Bruce Horwitz was also a manager of B-4 Partners until September 24, 2009. At that time, Bruce Horwitz resigned as a manager of B-4 Partners and sold his 25% interest in B-4 Partners to Kelly Ng. As a result, the members of B-4 Partners are currently Walter Ng (25%), Barney Ng (25%) and Kelly Ng (50%). Kelly Ng was the sole manager of B-4 Partners from the time that Walter Ng resigned until the Petition Date.

3. Bar-K: Originator and Former Servicer of R.E. Loans' Portfolio.

Until October 1, 2010, Bar-K serviced all of R.E. Loans' portfolio of loans. Bar-K also originated most of those loans. In 1975 Walter Ng, his wife, Maribel Ng, Barney Ng, and Kelly Ng formed Bar-K. Each was originally a 25% shareholder. Walter Ng and Maribel

[1] Walter Ng and his wife filed their voluntary petition under chapter 11 of the Bankruptcy Code on May 12, 2011, in the United States Bankruptcy Court for the Northern District of California, Oakland Division (the "**Oakland Bankruptcy Court**"). That case was converted to a chapter 7 case on November 4, 2011. Involuntary chapter 7 petitions were filed against Kelly Ng, Barney Ng, Bruce Horwitz and B-4 Partners in the Oakland Bankruptcy Court during December of 2011. The Oakland Bankruptcy Court has not yet ruled on any of those involuntary petitions, each of which is being contested by the alleged debtors.

Ng conveyed their interests to Barney Ng and Kelly Ng. Barney Ng and Kelly Ng each have owned 50% of the equity in Bar-K. Until September of 2009, Barney Ng was the president of Bar-K, Inc. ("**Bar-K**"). Barney Ng resigned from that position in September of 2009 and Kelly Ng has been the president of Bar-K at all times since September of 2009.

Bar-K was terminated as the servicer of R.E. Loans' portfolio, effective October 1, 2010. Effective as of that date, R.E. Loans entered into a new servicing agreement with LEND, Inc. This new agreement provides for only reimbursement of LEND, Inc.'s out-of-pocket expenses and provides for no profit from the servicing. Kelly Ng and Walter Ng own the stock in LEND, Inc. Kelly Ng is the president of LEND, Inc. All employees that provided services to R.E. Loans prior to the Petition Date were employed by LEND, Inc. None of the Debtors had any employees as of the Petition Date.

4. Capital Salvage: An REO Property Subsidiary.

Capital Salvage is a California corporation that is wholly owned by R.E. Loans.[2] Capital Salvage was formed to take title to the REO Property upon which R.E. Loans had foreclosed. In exchange for the transfer of REO Property by R.E. Loans to Capital Salvage after a foreclosure sale, Capital Salvage delivered to R.E. Loans an Intercompany Note with the same unpaid principal balance as the note previously signed by the third-party borrower, and a deed of trust or mortgage on the property obtained by Capital Salvage. Through this mechanism, R.E. Loans continued to hold notes secured by trust deeds, and these notes continued to serve as collateral for R.E. Loans' debts (as described in Section III.D, below).

Kelly Ng was the president of Capital Salvage at all times prior to the Petition Date. James Weissenborn became the sole director and President of Capital Salvage as of the Petition Date. The Bankruptcy Court has entered two orders providing that Mr. Weissenborn is the sole director and President of Capital Salvage.

[2] It was originally owned by Barney Ng and Kelly Ng. During 2010, Kelly Ng and Barney Ng conveyed their stock in Capital Salvage to R.E. Loans.

The Debtors believe that the only material creditors of Capital Salvage are (1) R.E. Loans on account of the Intercompany Note Claims; (2) Wells Fargo, which holds a non-recourse deed of trust or mortgage on certain properties owned by Capital Salvage to secure Wells Fargo's Prepetition Claims; and (3) taxing authorities on account of Secured Tax Claims with respect to the REO Properties owned by Capital Salvage.

5. R.E. Future: An REO Property Subsidiary.

R.E. Loans formed R.E. Future during 2010. R.E. Loans is the sole member of R.E. Future and was its sole manager at all times prior to the Petition Date. The Bankruptcy Court entered two (2) orders providing that Mackinac Partners ("**Mackinac**") became the sole manager of R.E. Future, effective as of the Petition Date.

R.E. Loans concluded that it might be more tax efficient to form a wholly owned limited liability company, rather than continuing to transfer REO Properties upon which R.E. Loans had foreclosed to Capital Salvage, a California corporation. The transfers to R.E. Future are implemented in the same manner as transfers described above to Capital Salvage: when REO Property is transferred by R.E. Loans to R.E. Future after a foreclosure sale, R.E. Future delivers to R.E. Loans an Intercompany Note with the same unpaid principal balance as the note previously signed by the third-party borrower, and a deed of trust or mortgage on the property obtained by R.E. Future. Through this mechanism R.E. Loans continues to hold notes secured by trust deeds and these notes continue to serve as collateral for R.E. Loans' debts.

The Debtors believe that the only material creditors of R.E. Future are: (1) R.E. Loans' Claims, on account of the Intercompany Notes; (2) Wells Fargo, which holds a non-recourse deed of trust or mortgage on certain parcels owned by R.E. Future to secure Wells Fargo's Prepetition Claims; and (3) taxing authorities, on account of Secured Tax Claims with respect to the properties owned by R.E. Future.

B. <u>R.E. Loan's Chief Restructuring Officer.</u>

Effective as of the Petition Date, Mackinac became the sole manager of R.E. Loans, and R.E. Future, and Mr. Weissenborn became the sole director and President of

Capital Salvage. During January of 2010, R.E. Loans engaged Mackinac and its principal, Mr. Weissenborn, to provide consulting services to assist R.E. Loans in dealing with its existing defaults to its creditors and the transition of R.E. Loans from a lender to a real estate management company, as the result of its acquisitions of the REO Properties through multiple foreclosure sales. On April 10, 2010, R.E. Loans formally engaged Mr. Weissenborn as its Chief Restructuring Officer (the "**CRO**"). On the Petition Date, the Debtors filed the *Application to Authorize Employment of Mackinac Partners and James A. Weissenborn on an Interim and Final Basis From the Petition Date to Provide Interim Management and Management Assistance to the Debtors Pursuant to 11 U.S.C. § 363* [Docket No. 10] (the "**CRO Motion**"). On September 19, 2011, the Bankruptcy Court entered *its Interim Order Authorizing Employment of Mackinac Partners and James A. Weissenborn as Other Professional On an Interim Basis* [Docket No. 52]. On October 31, 2011, the Bankruptcy Court entered its *Final Order Granting Application to Employ Mackinac Partners and James A. Weissenborn as Other Professional To Provide Interim Management and Management Assistance to the Debtors* [Docket No. 179].

C. Evolution of R.E. Loans' Structure.

R.E. Loans began doing business, as the product of the merger of nine limited partnerships, which became effective on January 1, 2002. The relationships among the investors and the principals date back to a much earlier time and the structure for effectuating the pooling and investment of funds has evolved over time.

Starting in approximately 1986, Walter Ng, Bruce Horwitz, Barney Ng, and Kelly Ng formed a partnership to pool investors' cash to make loans secured by real property. The limited partners of the partnership invested their cash and obtained limited partnership interests. Walter Ng and Bruce Horwitz managed the limited partnerships and invested the cash received from the limited partners in loans secured by real property. Prior to the formation of the partnerships that were merged into R.E. Loans, Bar-K originated loans and serviced loans for individual investors.

Over the period of time from approximately 1986 through the end of 2001, Walter

Ng, Bruce Horwitz, Barney Ng, and Kelly Ng formed nine (9) different limited partnerships into which limited partners invested their cash. Through these partnerships, they raised the funds necessary to make loans secured by real property. Those loans generated returns to the limited partners of approximately 8% per year for the entire period from approximately 1986 through 2001, when the partnerships were merged into R.E. Loans.

The decision was made to merge all of the partnerships into a single limited liability company. That merger was effected as of January 1, 2002. After the merger, each of the limited partners became a member of R.E. Loans and the assets, liabilities and operations of all of the partnerships were consolidated. From its inception, R.E. Loans was in the business of providing financing to the owners and developers of real property. Most of R.E. Loans' loans were initially secured by first deeds of trust on real property owned by the borrower. R.E. Loans provided approximately a 9% rate of return to its investors from its inception through September of 2008.

From the time that R.E. Loans was formed in 2002 until April of 2007, R.E. Loans raised additional capital by selling membership interests in R.E. Loans. In April of 2007, R.E. Loans stopped selling membership interests. At that time, the aggregate capital accounts of R.E. Loans' members totaled approximately $743 million. As of April of 2007, R.E. Loans had approximately 3,000 members,[3] and its sole manager was B-4 Partners.

R.E. Loans thereafter engaged in the Exchange Offer. (See Section III.D.2., below). In November of 2007, R.E. Loans consummated the Exchange Offer pursuant to which all of the members of R.E. Loans, other than B-4 Partners and Bar-K, received Exchange Notes in exchange for their membership interests. Pursuant to the Exchange Offer, R.E. Loans issued Exchange Notes in the aggregate face amount of $706 million in exchange for the interests of its former members. The dollar amount of the Exchange Note delivered to each former member

[3] R.E. Loans had approximately 1,500 separate investors, but many investors had more than one account, often in different capacities, resulting in approximately 3,000 total membership accounts.

was equal to the balance of that member's capital account, including the principal and interest accrued but not paid, as of the date the Exchange Offer closed. As of the Petition Date, there were approximately $646 million in Exchange Notes held by approximately 2,900 Noteholders. These Exchange Notes are discussed further in Section III.D.2, below.

D. R.E. Loans' Secured Loans.

1. Wells Fargo Line of Credit.

Wells Fargo has a first priority Lien on all or substantially all of the assets of R.E. Loans, including notes payable to R.E. Loans by Capital Salvage and R.E. Future, to secure the Wells Fargo's Prepetition Claims. Wells Fargo provided a working capital line of credit to the B-4 Partners and R.E. Loans pursuant to the Loan and Security Agreement, dated as of July 17, 2007 (as amended from time to time, the "**Loan Documents**"). B-4 Partners and R.E. Loans granted to Wells Fargo a first priority Lien on all or substantially all of their Assets to secure that credit facility. The balance owing to Wells Fargo on account of Wells Fargo's Prepetition Claims as of March 1, 2012, was approximately $62.5 million.

True and correct copies of the original Loan and Security Agreement, dated as of July 17, 2007 and the subsequent amendments thereto are attached to the *Addendum To Joint Stipulation And Agreed Interim Order: (I) Authorizing Debtors To (A) Obtain Post-Petition Financing On A Super-Priority, Secured And Priming Basis In Favor Of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral On An Interim Basis, (C) Provide Adequate Protection To Wells Fargo Capital Finance, LLC And The Noteholders, And (D) Enter Into Post-Petition Agreements With Wells Fargo Capital Finance, LLC; (II) Modifying The Automatic Stay, And (III) Scheduling A Final Hearing Pursuant To Bankruptcy Rule 4001* (the "**Addendum**" [Docket No. 35]), filed by the Debtors with the Court on the Petition Date. The UCC-1 financing statements are attached to the Addendum as part of Exhibit "B" thereto. In addition, R.E. Loans granted to Wells Fargo a first-priority deed of trust or mortgage on each of the REO Properties acquired by R.E. Loans through foreclosure sales. True and correct copies of these deeds of trust

are attached to the Addendum as Exhibit "E" thereto. No lien was granted on Perdido Key because of the large transfer taxes that would have been incurred for recording such a grant.

The balance owing to Wells Fargo as of the Petition Date was approximately $68 million. This balance has been reduced to approximately $62.5 million million as the result of sales during the Debtors' chapter 11 cases prior to March 1, 2012. In addition, the balance due under the DIP Facility is approximately $6.25 million.

The collateral securing Wells Fargo's secured claim includes all of the Notes Receivable held by R.E. Loans and all collateral securing those Notes Receivable, including the Intercompany Notes, and all of the REO Property that R.E. Loans retained after R.E. Loans foreclosed as the result of defaults under Notes Receivable. Each time R.E. Loans obtained and retained title to an REO Property which had previously secured a Note Receivable, R.E. Loans granted to Wells Fargo a first priority deed of trust or mortgage on that REO Property. In other cases, R.E. Loans transferred title of the property to Capital Salvage or R.E. Future, in exchange for an Intercompany Note secured by a deed of trust. Wells Fargo was granted a first priority Lien on these Intercompany Notes and deeds of trust.

2. Exchange Notes.

On November 1, 2007, R.E. Loans consummated an exchange offer pursuant to which each member of R.E. Loans, other than B-4 Partners, received an Exchange Note in exchange for the member's membership interest. As of the Petition Date, there were approximately 2,800 Exchange Notes outstanding, held by approximately 1,400 separate individuals or entities. In some instances, a single person holds more than one Exchange Note in different capacities or through different accounts, including retirement accounts.

The second-priority Lien on the Notes Receivable owned by R.E. Loans was granted effective November 1, 2007, pursuant to the form of Exchange Notes, the Security Agreement, and "Exchange Agreement," true and correct copies of which are attached to the Addendum as Exhibits "I", "J", and "K", respectively. The Exchange Notes issued to R.E. Loans' former members are secured by a second-priority Lien on substantially all of R.E. Loans'

personal property. The Exchange Notes are payable interest only until December 31, 2012, at which time they are all due and payable.

The Exchange Agreement Security Agreement securing the Exchange Notes expressly provides that the Lien granted to secure the Exchange Notes is subordinate to the Wells Fargo first-priority security interest. Section 3.6(b) of the Exchange Agreement reads as follows:

> The lien on [R.E. Loans'] assets established by the security agreement (the "**Lien**") will be subordinate to the lien of any Company Borrowings, including the WFF Lien. In addition, the terms of the WFF LOC provide for the payment of principal and interest on the WFF LOC on a priority basis under specified circumstances from certain income and assets of the Company, including from revenues and income generated by Portfolio Loans and from proceeds payable to the Company with respect to Portfolio Loan principal or the exercise of the Company's rights and remedies with respect to the Portfolio Loans.

"Company Borrowings" is defined at page 2, paragraph E of the Exchange Agreement to state that R.E. Loans "is specifically authorized to enter into loan agreements and lines of credit with institutional and other lenders for the purpose of borrowing operating capital and capital funds in order to make portfolio loans and for such other purposes as the Manager may determine (. . . such borrowings shall be collectively referred to as the 'Company Borrowings')." The Summary of Reorganization Plan, a true and correct copy of which is attached to the Addendum as Exhibit "M" thereto, is incorporated into the Confidential Memorandum accompanying the R.E. Loans Reorganization Plan and Note Program, dated October 2007, which was approved by the Exchange Agreement. The Summary of Reorganization Plan states that "The Note Documents will subordinate the Fund's obligations under the Investor Notes to its obligations as borrower under the WFF Loan Documents." (Addendum Exhibit "L" at page 2). The "R.E. Loans, LLC Reorganization Plan and Note Program Confidential Memorandum dated October, 2007", a true and correct copy of which is attached to the Addendum as Exhibit "L" also contains several subordination provisions, at page 2 (confirming subordination of the Noteholders' lien on R.E. Loans' assets to "other Company Borrowings, including the WFF Line of Credit"), page 5 ("the WFF Line of Credit will

be secured by a senior lien"), and page 13 (the Noteholders' lien is "junior to the liens imposed by Company Borrowings . . .").

Because Wells Fargo's documentation provided for R.E. Loans' grant to Wells Fargo of a first-priority Lien on all Notes Receivable, this includes the Intercompany Notes, which are payable by the REO Property Subsidiaries. Similarly, because the Noteholders were granted a second-priority Lien on all Notes Receivable, this also included the Intercompany Note Claims payable by the REO Property Subsidiaries. Wells Fargo also received a deed of trust on each parcel of the REO Property acquired by R.E. Loans through the foreclosure process. R.E. Loans did not execute or deliver or record a deed of trust or mortgage on any of the REO Property owned by R.E. Loans or the REO Property Subsidiaries to secure the Exchange Notes.

Although the Exchange Notes were not due and payable until December, 2012, Noteholders could request prepayment of amounts due to them at any time and R.E. Loans honored those requests when possible. During the period after the consummation of the Exchange Agreement and before the Petition Date, R.E. Loans made payments of more than $120,000,000 to the Noteholders. A list of the aggregate payments to each Noteholder that received payments of $10,000 or more is attached hereto as **Exhibit "B"**. If R.E. Loans was insolvent on the date each such payment was made, each payment may be avoidable as a constructive fraudulent transfer or as an improper distribution to a former member. On the Effective Date, the Causes of Action that will vest in the Liquidating Trust will include the Potential Recovery Remedies.

After R.E. Loans defaulted under the Wells Fargo senior secured credit facility, R.E. Loans had no right to obtain additional advances and had no liquidity to pay principal or interests on the Exchange Notes.

The Exchange Notes and the Lien granted to the holders of the Exchange Notes may be avoidable pursuant to Bankruptcy Code § 544(b) and Cal. Civ. Code § 3439.04 or unenforceable or subordinated under the California Corporations Code. The Exchange Notes were issued to equity holders in exchange for their membership interests. As a result, R.E. Loans

may have received no "value" in exchange for the Exchange Notes. If, therefore, R.E. Loans was insolvent, undercapitalized, or should have known that it would be unable to meet its obligations as they became due immediately after the exchange offer, and if there were any unsecured creditors that held Claims before the Exchange Offer that still held Claims as of the Petition Date, the Exchange Notes and the Lien that secures them may be avoidable by the Debtors as constructive fraudulent transfers. Immediately after the issuance of the Exchange Notes, R.E. Loans had increased its obligations from less than $70 million, including approximately $60 million owing to Wells Fargo, to approximately $780 million, including the balances due on the Exchange Notes. This exchange may have rendered R.E. Loans insolvent, undercapitalized, or unable to meet its obligations as they became due.

On December 27, 2011, the former collateral agent to the Noteholders, DSI, filed one objection to all of the Noteholders' Claims, asserting that the Exchange Notes and the liens securing them may be avoidable pursuant to Bankruptcy Code § 544(b) and Cal. Civ. Code § 3439.04 [Docket No. 372] (the "**First DSI Objection**"). If R.E. Loans was insolvent, undercapitalized, or should have known that it would be unable to meet its obligations as they became due immediately after the Exchange Offer, and if there were any unsecured creditors that held Claims before the Exchange Offer that still held Claims as of the Petition Date, the Exchange Notes and liens that secure them may be avoidable by the Debtors as constructive fraudulent transfers. DSI has not served the First DSI Objection and it is not clear that DSI has standing to assert the avoidability of the Exchange Notes and the Liens securing them. Additionally, the First DSI Objection is likely procedurally defective.

During February 2012, DSI filed seventeen omnibus objections to certain of the Noteholders' Claims, alleging that the Notes should not be enforceable under California Corporations Code § 17254 (collectively, the "**Second DSI Objection**"). DSI never properly scheduled a hearing on the Second DSI Objection.

California Corporations Code § 17254 restricts the ability of a limited liability company to make distributions to its members if it is insolvent at the time of the distributions.

DSI contends that any cash payments made on account of the Exchange Notes constitute distributions to the Noteholders in their capacity as former members and, therefore, the solvency of R.E. Loans must be measured at the date the payment is made. It is indisputable that R.E. Loans is insolvent at the present time. DSI contends that, therefore, no further payments can be made on account of the Exchange Notes, at least until and unless all other creditors of the Debtors are paid in full.

The Debtors have been informed by the Noteholders Committee, that the Noteholders Committee contends that DSI's objections to the Noteholders' Claims are not well founded for a variety of reasons, including, without limitation, the following: (1) Because the Exchange Notes are secured, the appropriate date for measuring the solvency of R.E. Loans was the date the security interest was granted and the Exchange Notes were issued (*i.e.* November 1, 2007); (2) the Debtors' audited financial statements as of December 31, 2007, showed that the Debtors were solvent after the Exchange Notes were issued; (3) pursuant to California Corporations Code § 17000(j) the issuance of the Exchange Notes does not constitute a "distribution" to the Noteholders, because a distribution is limited to "a transfer of money or property by a limited liability company to its members without consideration", and the Noteholders (as former members) gave substantial consideration in exchange for the Exchange Notes, including (a) the loss of voting or control rights, (b) the loss of potential equity "upside", and (c) the value of their capital accounts; (4) California Corporations Code § 17254(d)(2) is entirely inapplicable to the Exchange Notes, because that subsection limits payments on account of notes issued to members only if the notes contain the limiting language in Section 17254(d)(1), which the Exchange Notes did not contain; (5) under California Corporations Code § 17254, a limited liability company has the right to issue notes to former members in exchange for their membership interests and to measure the solvency of the limited liability company on either the date the notes were issued or the date the payments are due, and based on the documentation the test for the Exchange Notes was the date the Exchange Notes were issued; and (6) payments to be made by the Liquidating Trust under the Plan do not

constitute distributions by R.E. Loans to its members, because the Noteholders are no longer members and the Liquidating Trust is not a limited liability company governed by the statute.

If the Exchange Notes (and DSI's Claim, as agent for the Noteholders) are valid and enforceable according to their terms, Holders of Class 8 Claims would be entitled to Secured Claims, secured by the Notes Receivable and Intercompany Notes owned by R.E. Loans, subordinated only to the senior Claims and Liens of Wells Fargo and Secured Tax Claims, and to unsecured deficiency Claims for the balance due under the Exchange Notes, minus the value of the collateral. If the Exchange Notes are avoidable constructive fraudulent transfers or subject to Cal. Corp. Code § 17254, the Debtors believe that the Noteholders would be entitled to subordinated Claims.

The Debtors and the Noteholders Committee contend that because the Claims of the Noteholders are listed in the Debtors' Schedules as undisputed, liquidated and not contingent, each Noteholder is deemed to have filed a proof of claim in the amount scheduled, pursuant to Bankruptcy Code § 1111(a). The Debtors and the Noteholders Committee contend that this deemed-filed Claim can be Allowed as a subordinated Claim in Class 8, if (1) the Exchange Notes are avoidable as constructive fraudulent transfers or improper distributions to former members, and (2) Class 8 does not vote to accept the Plan and the Plan Compromise. The Debtors and the Noteholders Committee seek to minimize the burden on Noteholders and the potential unfairness to Noteholders that could arise if each individual Noteholder were required to file a formal proof of claim. The Debtors amended the Schedules to list the obligations to the Noteholders as liquidated, undisputed, and not contingent, so that each Noteholder would be deemed to have filed a proof of claim. The Debtors and the Noteholders Committee have also entered into the *Stipulation Clarifying the Status of Noteholder Claims against R.E. Loans, LLC, et al.* **[Docket No. ___]** (the "**Stipulation**").

DSI contends that any Claim based on the Notes must be disallowed (rather than subordinated) and that each Noteholder can have an Allowed Claim only if that Noteholder filed formal proof of claim asserting securities fraud or other causes of action separate and apart from

the balance due under Exchange Notes, notwithstanding the deemed-filed Claims that Noteholders have based on the Debtors' inclusion of the amounts owing to the Noteholders in the Debtors' Schedules. The Debtors and the Noteholders Committee believe this contention is entirely unfounded. The Noteholder Claims Stipulation is intended by the Noteholders Committee and the Debtors to prevent DSI from further pursuing this unfounded basis for seeking disallowance of the Noteholders' Claims or creating confusion or added expense for individual Noteholders.

Through the Plan Compromise, the Debtors have formulated what the Debtors believe is a fair and equitable settlement of the potential disputes regarding the validity, enforceability, avoidability, and priority of the Exchange Notes and the Liens granted to the Noteholders under the Exchange Agreement Security Agreement. Under the Plan Compromise, which is more fully described in Section 4.7 of the Plan, the holders of the Exchange Notes (and DSI, as the former collateral agent for the holders of the Exchange Notes, unless this Court determines that DSI's claim must be separately classified) will surrender their Liens in exchange for the allowance of their Claims as General Unsecured Claims. The Plan Compromise preserves and vests in the Liquidating Trustee the Potential Recovery Remedies against Holders of Class 8 Claims that received any payment from the Debtors after the Exchange Agreement.

If Noteholders vote not to accept the Plan Compromise, then the dispute over the validity and priority of the Exchange Notes will be litigated by the Debtors and the Bankruptcy Court will determine whether the Exchange Notes will be subordinated, entirely disallowed, or allowed as Secured Claims. Confirmation of the Plan is conditioned on the subordination of the Exchange Notes. If the Noteholders do not accept the Plan and the Exchange Notes are not subordinated, the Plan will have to be materially amended and cannot be confirmed in its current form.

3. Pre-Petition Defaults Under Secured Debts.

The Exchange Notes and the Prepetition Wells Fargo Facility were both in default for an extended period of time prior to the Petition Date. Pursuant to the terms and conditions of

the operative loan agreements between R.E. Loans and Wells Fargo, Wells Fargo declared a default under the Prepetition Wells Fargo Facility in August of 2008. Between that date and the Petition Date, Wells Fargo and R.E. Loans entered into a series of forbearance agreements during which time Wells Fargo did not exercise its rights or remedies and funded R.E. Loans' operations through optional protective advances. Pursuant to the various amendments and forbearance agreements, Wells Fargo continued to fund the Debtors' ongoing operating expenses based on agreed budgets, and the Debtors have turned over to Wells Fargo the net cash proceeds the Debtors have realized under the Notes Receivable or from the sale of foreclosed properties. This structure was effectively continued during the Chapter 11 Cases through the DIP Facility provided by Wells Fargo.

After that default was declared, Wells Fargo was under no obligation to make additional advances to R.E. Loans. R.E. Loans also stopped making interest payments on the Exchange Notes on September 30, 2008. With very few exceptions, no interest or principal payments have been made to any Noteholders since that date.

The entire outstanding balance owing under the Prepetition Wells Fargo Facility became all due and payable, without acceleration, by terms of the Prepetition Loan Documents, on July 17, 2010. The Debtors were not, however, able to pay the balance when it became due. As a result, the Debtors and Wells Fargo entered into a series of additional Forbearance Agreements after such date.

E. R.E. Loans' Assets.

R.E. Loans invested in Notes Receivable substantially all of which were secured by first priority trust deeds or mortgages on real property of the R.E. Loans' Borrowers. In a few instances disputes have arisen over the priority of the Liens securing the Notes Receivable. In virtually all circumstances, the R.E. Loans' Borrowers were special purpose entities set up for the sole purpose of developing the particular property in question. In very few cases, R.E. Loans obtained guaranties from insiders of R.E. Loans' Borrowers.

1. Loans Secured by Real Property.

In many instances, R.E. Loans holds Notes Receivable secured by real property, not the real property itself. In most instances, the real property that secures the Notes Receivable (and the REO Property that has been acquired by the Debtors) is raw land or partially developed land, most of which is not in primary residential areas and virtually all of which faces complex development challenges. Most of these assets simply cannot be liquidated in the short run at any reasonable price. The Debtors own very few finished lots or real property at which vertical construction has been commenced.

Most of this raw land that may someday be developed as residential property is not in primary residential areas. Rather, the property was intended to be developed for second homes, golf-course or retirement communities, or destination properties and resorts. There is very limited demand for such properties in the current market. The REO Property and the collateral that secure Notes Receivable that is in areas that may be developed as primary residences, is unentitled raw land, with significant development challenges. In most of the markets where these properties are located, there is an existing supply of finished lots that exceeds existing demand. Based on these factors, any buyer would likely be willing to pay only a relatively low price if the Debtors were forced to liquidate these assets today.

The current unpaid principal balance of the remaining R.E. Loans portfolio (including the unpaid principal balance on REO Property on which the Debtors have foreclosed already) is approximately $650 million. R.E. Loans currently owns, either directly or through its wholly-owned subsidiaries, R.E. Future and Capital Salvage, only about 45% of the real property that originally secured Notes Receivable. This percentage is based upon the unpaid principal balances of the loans in the R.E. Loans portfolio and the unpaid principal balances of the loans on which R.E. Loans has foreclosed, not based on the fair market value of the various properties. The other 55% of the portfolio is still owned by R.E. Loans' Borrowers. R.E. Loans must either reach an agreement with the owner/borrower or foreclose on each of these properties. This will take time and money to obtain control of these assets. In some instances R.E. Loans must also

resolve disputes with parties asserting competing encumbrances on those properties, including, without limitation, alleged mechanics' liens.

2. Defaults by R.E. Loans' Borrowers.

In 2008, the United States economy in general and real estate development in particular entered into the worst economic downturn since the Great Depression. Virtually all of the borrowers to whom R.E. Loans had outstanding loans in 2008 have defaulted. Those that have not defaulted have paid off the entire balance that they owed. As a result, the Debtors have no regular cash flow. R.E. Loans has worked with many of its borrowers in an effort to maximize the recovery on the defaulted Notes Receivable, but in other instances it has been forced to foreclose.

As a result of the multiple defaults by R.E. Loans' Borrowers, R.E. Loans has effectively transitioned from being a lender to becoming a property management company. R.E. Loans has foreclosed on property securing many of its Notes Receivable and has converted that collateral into REO Property. R.E. Loans has foreclosed on Notes Receivable with aggregate unpaid principal balances totaling more than $325 million.

When R.E. Loans acquired property as the result of credit bids at foreclosure sales (the "**REO Properties**"), in many cases it transferred title to REO Properties to one of its wholly owned subsidiaries, Capital Salvage or R.E. Future (the "**REO Property Subsidiaries**"). Each of the REO Property Subsidiaries delivered an Intercompany Note payable to R.E. Loans and granted to R.E. Loans a first-priority deed of trust or mortgage on the same REO Property to secure the repayment of the Intercompany Note. The REO Property owned by each REO Property Subsidiary and the amounts of the Intercompany Notes payable by each REO Property Subsidiary to R.E. Loans are listed in **Exhibit "C"** which is attached hereto.[4] R.E. Loans retained title to certain REO Property acquired through foreclosure proceedings, but thereafter

[4] Based on the best information currently available to the Debtors, it appears likely that the actual value of each of the REO Properties is far less than the face amount of the Intercompany Notes payable by the REO Property Subsidiaries to R.E. Loans.

transferred other REO Properties to one of the REO Property Subsidiaries. The real estate owned by R.E. Loans is listed in **Exhibit "D"**, which is attached hereto. Wells Fargo was granted a first priority Lien on the REO Property owned by R.E. Loans and on the Intercompany Notes payable by the REO Property Subsidiaries to R.E. Loans.

In many instances, R.E. Loans cannot liquidate the asset that it owns (a Note Receivable secured by a deed of trust) until it obtains control over the underlying real property collateral. Attempting to liquidate Notes Receivable that are currently in default could in some cases generate less value than might be generated by first foreclosing on the real property collateral and then taking appropriate steps to market and sell the underlying real estate collateral.

Through Debt Exchange, Inc., the Debtors have marketed the Notes Receivable and have agreed to sell those Notes Receivable on which the Debtors received bids that Mackinac concluded were reasonable. The Debtors have filed a motion seeking Bankruptcy Court approval of those sales. The Debtors' operations do not generate sufficient cash flow to pay their operating expenses to engage in this activity and generate fair value for the holders of the Exchange Notes. The Debtors must, therefore, obtain financing to maximize the return to the holders of all Claims junior to Wells Fargo.

The Debtors do not have current appraisals of all of the Debtors' assets. The appraisals that the Debtors do have may not reflect the actual value that the Debtors could generate from prompt sales of their assets. The Debtors, Wells Fargo, and the Noteholders Committee have negotiated "Minimum Release Prices" at which Wells Fargo has agreed to release its Lien if the Debtors obtain offers. Further, and the Debtors and the Noteholders Committee have agreed to sell specific assets if the Debtors receive offers at or above these Minimum Release Prices. The Minimum Release Prices have been filed with the Court under seal, to avoid publicizing to the potential buyers the amount of each individual release price. In the aggregate, the Minimum Release Prices for the Debtors' REO Property total approximately

$126 million and the release prices for the Notes Receivable total approximately $93 million.[5] Based on the reasonable business judgment of Mr. Weissenborn, the value of the Debtors' assets is substantially more than the sum of the balance owing to Wells Fargo on account of the Wells Fargo's Prepetition Claims and the DIP Facility Claims combined, and unpaid Secured Tax Claims, but substantially less than the aggregate balance owing on the Exchange Notes (approximately $776 million, including interest accrued through the Petition Date). If the Debtors were to liquidate their Assets, including the illiquid Notes Receivable that are currently in default, on an expedited basis, the Debtors should be able to satisfy Wells Fargo's Prepetition Claims, the DIP Facility Claims, the Secured Property Claims, but such a liquidation would greatly reduce the ultimate recoveries by the Noteholders.

3. Investment in R.E. Reno LLC and Loan Secured by The Siena Hotel & Casino.

In addition to the secured loans described in Section III.E.1, above, R.E. Loans invested approximately $21 million to acquire membership interests in R.E. Reno, LLC, a Nevada limited liability company ("**R.E. Reno**"). Walter Ng was then the manager of R.E. Reno. Other members of R.E. Reno invested approximately $29 million and, therefore, R.E. Loans owns approximately 42% of the membership interests in R.E. Reno.

R.E. Reno made a $50 million loan to One South Lake Street, LLC ("**OSLS**"), the owner of the real property used to operate the Siena Hotel and Casino in Reno, Nevada (the "**Siena**"). This loan was secured by a first priority mortgage on the real property owned by OSLS and the lease of that property to Wild Game Ng, Inc. ("**WGN**"). WGN defaulted on its lease payments to OSLS, and OSLS defaulted on its note payable to R.E. Reno. R.E. Reno commenced foreclosure proceedings during 2010. In July, 2010, WGN and OSLS both filed chapter 11 petitions. The Siena was closed in late October 2010 and was sold at a bankruptcy

[5] The agreement on the Minimum Release Prices was a negotiated resolution in the context of the final DIP Financing Order. The negotiated resolution expressly provides that the Minimum Release Prices will not be binding determinations of value in future litigation between parties or admissions by Wells Fargo as to the value of the various assets.

court auction sale on November 12, 2010. The purchase price was only $3.9 million, only part of which constituted the proceeds of R.E. Reno's collateral, which secured its $50 million loan. R.E. Reno did not have a Lien on the personal property sold as part of the joint bankruptcy court sale by OSLS and WGN.

R.E. Reno, as secured creditor to OSLS, settled with OSLS and WGN. R.E. Reno received approximately $2.7 million, which was 90% of the net proceeds after payment of senior lien claims on OSLS's assets and surcharges for costs of the sale. R.E. Loans received reimbursement of advances R.E. Loans had previously made to fund R.E. Reno's out of pocket enforcement expenses of approximately $500,000. R.E. Loans will soon receive approximately $850,000 (approximately 42% of R.E. Reno's remaining cash of approximately $2.1 million). Wells Fargo has a first priority Lien on the membership interest in R.E. Reno, together with any proceeds thereof, that is owned by R.E. Loans. The distributions from R.E. Reno to R.E. Loans will be turned over to Wells Fargo to be applied pursuant to the DIP Facility.

R.E. Reno has a rent claim against WGN for approximately $16 million and a deficiency claim against OSLS for approximately $60 million. OSLS and WGN appear to have no material assets, other than possible litigation claims against International Gaming Technology. It is possible that R.E. Reno could recover on its deficiency claim of OSLS or WGN recover from International Gaming Technology, but any such recovery is highly speculative.

Barney Ng was the owner of the equity of OSLS and WGN, which leased the Siena from OSLS and operated the Siena. Barney Ng and Walter Ng each signed a letter in which they promised to pay the balance due to R.E. Reno if OSLS defaulted. R.E. Reno contends that it has claims against Walter Ng and Barney Ng based on that letter. Walter Ng filed a chapter 11 petition, and his case was later converted to a chapter 7 case. His obligation under the guarantee is listed as a debt, though it is unclear what distribution will be made in that chapter 7 case. R.E. Reno asserts a deficiency claim of approximately $60 million against OSLS and each guarantor. If R.E. Reno recovers on account of the guarantee claims or from OSLS

against Walter Ng or Barney Ng, R.E. Loans will be entitled to approximately 42% of its net recovery, subject to Wells Fargo's first priority Lien.

Walter Ng was the sole manager of R.E. Reno. Walter Ng later resigned as manager, and the members of R.E. Reno elected a replacement manager. Insolvency Services Group, Inc. ("**ISG**") has been elected as the successor manager and is commencing the process of winding down R.E. Reno.

F. Business Transactions Among the Debtors and Affiliated Companies.

Pursuant to the agreements among B-4 Partners, Bar-K and R.E. Loans and the Operating Agreement of R.E. Loans, prior to the Petition Date, B-4 Partners and Bar-K contend that they were entitled to receive compensation in exchange for the services that they provided to R.E. Loans. Mackinac was engaged to provide services to R.E. Loans beginning in January of 2010. B-4 Partners and Bar-K acknowledge that all amounts paid to Mackinac should be credited against any amounts that otherwise would be due to B-4 Partners or Bar-K, because Mackinac was providing the management services for which B-4 Partners and Bar-K were entitled to compensation.

B-4 Partners, as the prior manager of R.E. Loans, was entitled to payment equal to 1% of the unpaid principal balance of the loan portfolio pursuant to the Operating Agreement and B-4 Partners' agreements with R.E. Loans. This fee was paid until December 1, 2009. B-4 Partners contends that this fee has continued to accrue through the Petition Date, subject to the credit for amounts actually paid to Mackinac.

B-4 Partners committed to buy loans made to affiliated borrowers in which the insiders of R.E. Loans owned controlling interests, if the borrowers defaulted thereunder and failed to cure the default within 30 days. Several loans that may be covered by this commitment have defaulted. B-4 Partners has not bought those loans from R.E. Loans and does not have the financial resources to do so. Although it is not possible at this time to determine how much R.E. Loans will recover from the borrowers on those Note Receivable Claims, or what

R.E. Loans' net damages will be, R.E. Loans contends that it holds a claim against B-4 Partners arising from B-4 Partners' failure to buy those defaulted loans.

Bar-K had a contractual right to receive from R.E. Loans a loan servicing fee equal to 1% of the unpaid principal balance of the loans in R.E. Loans' portfolio, to be paid exclusively from interest collected on such loans. R.E. Loans paid these fees to Bar-K until October 28, 2009. Thereafter, Bar-K contends that these fees continued to accrue through October 1, 2010, at which time Bar-K was terminated as the servicer of R.E. Loans' portfolio.

Bar-K also received origination fees that were funded by borrowers from the proceeds of loans made by R.E Loans. The cash fees paid were usually in the range of 5% of the amount funded. Where loans included an initial advance and provided for additional future draws to fund development, the payment of the origination fee for the additional draw amounts was often deferred until the additional balance was actually drawn. In some instances, Barney Ng or one of his affiliates also received additional compensation from R.E. Loans' Borrowers in the form of a note secured by a junior deed of trust or mortgage on the same collateral on which R.E. Loans received a first deed of trust or mortgage. In some instances, the claim secured by this junior lien was paid off from the proceeds of a later loan by R.E. Loans to the same R.E. Loans' Borrowers to refinance and increase the original loan.

2718 Santa Rosa, LLC is a borrower under a note on which the unpaid principal balance is approximately $47 million. Barney Ng and Walter Ng own 2718 Santa Rosa, LLC. Barney Ng guaranteed the balance due on this promissory note. Barney Ng is the manager of 2718 Santa Rosa, LLC. The collateral for the loan to 2718 Santa Rosa, LLC includes 2,718 acres of undeveloped land in Florida. This development is the subject of pending litigation in Florida.

R.E. Loans reserves its right to contend that it does not owe the fees that B-4 Partners and Bar-K contend have accrued since R.E. Loans stopped paying those fees. R.E. Loans reserves all claims that R.E. Loans has against B-4 Partners, Bar-K and all other insiders. The Noteholders Committee is currently investigating potential claims against multiple

parties, including insiders and affiliates. The Debtors have entered into a Joint Litigation Agreement with the Noteholders Committee pursuant to which the Debtors are able to share additional confidential and potentially privileged information with the Noteholders Committee to facilitate the Noteholders Committee's investigation. Pursuant to the Plan, the Liquidating Trust will have the right to object to the claims of B-4 Partners and Bar-K for accrued, unpaid fees and to review whether any claims exist against B-4 Partners or Bar-K (and other insiders) for the benefit of the creditors of R.E. Loans.

G. Transfers to Mortgage Fund 2008, LLC.

During 2008, R.E. Loans sold to Mortgage Fund 2008, LLC ("**MF08**") certain secured promissory notes receivable previously owned by R.E. Loans. The Mortgage Fund, LLC is the sole member and manager of MF08. Kelly Ng is the only manager of The Mortgage Fund, LLC. MF08 was formed during 2007 in a structure similar to the structure of R.E. Loans after the Exchange Offer. Each investor in MF08 received a promissory note (collectively, the "**MF08 Notes**") in a principal amount equal to the investment. The MF08 Notes are secured by a first Lien on substantially all of MF08's assets, which consist of notes primarily secured by first priority deeds of trust on real property (and occasionally by second-priority deeds of trust on real property). The Debtors are informed and believe that the total principal balance of the MF08 Notes is approximately $80 million.

During 2008, MF08 purchased certain loans from R.E. Loans, ultimately resulting in the transfer from R.E. Loans of the loans scheduled in **Exhibit "E"** to this Disclosure Statement. Most or all of the notes receivable that R.E. Loans sold to MF08 have defaulted. It also appears that MF08 provided financing to a former borrower of R.E. Loans, which used a substantial portion of the cash loan proceeds provided by MF08 to pay off a pre-existing Note Receivable of R.E. Loans. MF08 filed a proof of claim against R.E. Loans in the amount of $66,226,496, for the cash that MF08 alleges that it paid to R.E. Loans, including the proceeds loaned to R.E. Loans' former borrower, which used those proceeds to pay off the balance due to

R.E. Loans. The Debtors and the Noteholders Committee are investigating the veracity of MF08's claim and reserve all defenses to such Claim.

The Debtors and the Noteholders Committee believe that MF'08's claim may be entirely disallowed (if the Bankruptcy Court determines that MF'08 received reasonably equivalent value measured on the dates it received transfers for the cash it paid to R.E. Loans). This defense to the MF'08 claim will depend on a valuation of the notes transferred to MF'08 on the dates they were transferred, which the Debtors have not had valued. MF'08 has submitted no evidence of such value. Alternatively, the Debtors contend that the amount of MF'08's claim should be limited to the difference between the cash that paid to R.E. Loans and the value of the notes transferred to MF'08 at the time each such note was transferred. The Debtors also contend that MF'08's filed claim includes amounts loaned to Eagle Springs, which used part of the proceeds of the loan from MF'08 to pay off a prior secured loan from R.E. Loans. R.E. Loans contends that MF'08 cannot have a Claim against R.E. Loans based on sums that MF'08 loaned to a third party borrower. MF'08's net Claim, if any, should be substantially less than the total Claim filed by MF'08, but the Debtors do not yet have a valuation of the notes transferred.

H. Prepetition Efforts to Sell Assets And Obtain Financing.

Mackinac developed projections and a business plan for maximizing the value of the portfolio. After preparation of this model, during the period from approximately June through August of 2010, Mackinac sought to persuade Wells Fargo to fund that restructuring model.

During July of 2010, Wells Fargo indicated that if it was going to provide the financing for the Debtors' future operations, it would require the Debtors to agree to a relatively shorter horizon for liquidating the portfolio and paying off the balance due to Wells Fargo than Mackinac believed would enable the Debtors to maximize value. Mackinac concluded that liquidation in the time frame originally requested by Wells Fargo during the summer of 2010 would not provide as much value as otherwise might be generated for other creditors, including the Noteholders, if Mackinac had more time to sell the portfolio of assets.

To increase the value that might be obtained, Mackinac actively sought alternative financing from multiple sources. Mackinac contacted approximately 25 potential financing sources and R.E. Loans entered into nondisclosure agreements with approximately fourteen of those possible lending sources. Mackinac established an electronic data room and provided due diligence materials to these potential take-out lenders.

Three of the sources of potential financing indicated that their preferred mechanism would be to purchase the existing debt held by Wells Fargo, and to provide additional financing on a going forward basis. Between September of 2010 and June of 2011, three separate potential lenders informed Mackinac that they had signed a letter of intent to purchase the Wells Fargo debt, conditioned on the completion of due diligence. Each of these potential lenders indicated that if it acquired the Wells Fargo debt, it would thereafter enter into a restructuring agreement and provide financing for the orderly disposition of the Debtors' REO Property and Notes Receivable. From September of 2010 through June of 2011, Mackinac coordinated the Debtors' cooperation with these lenders' due diligence efforts. Despite these efforts, none of these three lenders proceeded. The third potential take-out lender withdrew its letter of intent in July of 2011.

The Debtors also sought to sell assets both individually and in bulk prior to the Petition Date. The proceeds of each pre-petition sale were applied to Wells Fargo's secured Claim, as required by the forbearance agreements with Wells Fargo.

I. Chapter 11 Cases.

In order to avoid a fire-sale liquidation of the Debtors' Assets and to maximize value for all Creditors of their Estates, the Debtors filed voluntary petitions for relief on September 13, 2011. On or about the first day after the Petition Date, the Debtors filed various motions (collectively, the "**First Day Motions**"), including, without limitation, the following:

1. First Day Motions.

(1) *Motion for Order Authorizing Joint Administration of Chapter 11 Cases* (the "**Joint Administration Motion**"). Through the Joint Administration Motion, the Debtors

obtained entry of an order jointly consolidating their cases under Bankruptcy Rule 1015(b).

(2) *Motion for Order Establishing Notice Procedures and Permitting Debtors in Possession to Serve Insured Depository Institutions by First-Class Mail* (the "**Notice Procedures Motion**"). Through the Notice Procedures Motion, the Debtors obtained entry of an order limiting the number of individuals and entities that they needed to serve pleadings on, thereby minimizing the administrative costs of the Debtors' cases.

(3) *Motion for Order Authorizing Debtors and Debtors in Possession to Employ and Compensate Professionals in the Ordinary Course of Business* (the "**OCP Motion**"). Through the OCP Motion, the Debtors sought and obtained entry of an order authorizing them to employ and compensate certain non-bankruptcy professionals in the ordinary course of the Debtors' businesses.

2. Motion to Set Claims Bar Date and Approve Notice Procedures.

On December 9, 2011, the Court established February 6, 2012, as the deadline for filing proofs of claim against the Debtors by those creditors required to do so (the "**Bar Date**"). [Docket No. 321].

3. Professionals Engaged by the Debtors and the Noteholders Committee.

The Debtors have engaged Gardere, Wynne, Sewell, LLP, to provide bankruptcy related services as local Texas counsel and to provide other services, including, without limitation, services relating to, responding to government investigations and advising the Debtors regarding tax matters. The Debtors have engaged Stutman, Treister & Glatt Professional Corporation as their general reorganization counsel. The Debtors have engaged Hines Smith Carter as special litigation counsel in multiple lawsuits, and Latham and Watkins LLP, as special counsel to consult and advise in connection with litigation relating to Rancho Las Flores, LLC, one of R.E. Loans' Borrowers.

In addition, the Debtors have sought and obtained authority to employ various professionals in the ordinary course of business, primarily to represent the interests of the Debtors in connection with various pending litigation matters.

On September 15, 2011, the Office of the United States Trustee ("**UST**") appointed an eleven (11) member Noteholders Committee. The Noteholders Committee appointed under section 1102 of the Bankruptcy Code have, among other rights, the right (i) to consult with a debtor concerning administration of the case; (ii) to investigate the acts, conduct, assets, liabilities, and financial condition of the debtor, the debtor's operations, and any other matter relevant to the case or to the formulation of a plan; and (iii) to participate in the formulation and acceptance or rejection of a plan. The Noteholders Committee currently consists of the following individuals: Pearl L. Tom, Sherratt Reicher, Linda Reilly, Barbara Hamrick, Gene Rapp, Steve Fong, Edwin Blue, Allan Cone on behalf of Pensco Trust FBO Patrick Simmons, Elliott Abrams, and Dixon Collins, and Ron Nahas (who is an *ex officio* non-voting member).[6]

To protect confidential and privileged communications between the Noteholders Committee and its advisors, as well as facilitate the free flow of confidential proprietary business information to the Noteholders Committee from the Debtors, the Noteholders Committee sought and obtained an order of the Bankruptcy Court clarifying the rights and obligations of the Noteholders Committee to provide information to creditors generally. That order generally provides that the Noteholders Committee may provide non-confidential, non-privileged information to Noteholders, but may not share confidential or privileged information with Noteholders.

The Noteholders Committee has engaged Akin Gump Strauss Hauer & Feld, LLP as general reorganization counsel, Diamond McCarthy, LLP as special litigation counsel, and FTI Advisors ("**FTI**") as its financial consultants.

The Noteholders Committee has commenced an investigation into potential claims of the bankruptcy estates against multiple insiders and third parties, including, without limitation, Greenberg Traurig and Wells Fargo. Specifically, the Noteholders Committee

[6] Dixon Collins replaced Deborah Kurtin, who resigned from the Noteholders Committee in November 2011. Lisa Kran resigned from the Noteholders Committee in January 2012.

obtained at least ten separate orders authorizing the Bankruptcy Rule 2004 examinations of insiders and third parties. The Noteholders Committee employed special litigation counsel, Diamond McCarthy, to spearhead this investigation. The Debtors and the Noteholders Committee have entered into a Joint Litigation Agreement to which the Noble Class Plaintiffs are also parties. That agreement is intended to provide the Noteholders Committee with greater access to the documents in possession and control of the Debtors to facilitate a cost efficient and timely investigation.

The estates must determine whether it would be beneficial to pursue litigation claims against Wells Fargo not later than May 22, 2012, subject to an earlier deadline if certain events occur. The Final Financing Order established February 29, 2012, as a deadline for the initiation of the claims against Wells Fargo. Wells Fargo, the Debtors and the Noteholders Committee agreed to two extensions [Docket Nos. 546 and _____] to file "Alleged Residual Causes of Action." Wells Fargo has turned over tens of thousands of documents to special litigation counsel to the Noteholders Committee.

On February 8, 2012, the Bankruptcy Court heard the First Interim Fee Applications submitted by the professionals employed by the Debtors and the Noteholders Committee. At that hearing, the Bankruptcy Court awarded interim compensation and reimbursement of expenses to the following professionals in the following dollar amounts for the period through December 31, 2012, payment of which was subject to the terms of the Final Financing Order:

Professional	**Fees and Costs**
Stutman, Treister & Glatt Professional Corporation	$827,139.88
Gardere Wynne Sewell LLP	$265,384.44
Akin Gump Strauss Hauer & Feld LLP	$902,376.75
FTI	441,489.55

In addition to the foregoing professionals, the Bankruptcy Court entered an order

approving interim compensation and reimbursement of expenses for Mackinac Partners in its capacity as the manager of R.E. Loans and R.E. Future and Chief Restructuring Officer in the amount of $980,442. Additional projected professional fees for the Noteholders Committee's Professionals and the Debtors' Professionals are set forth in the Approved Budget for the DIP Facility. For the period from April 1, 2012, through June 30, 2012, these total approximately $2.5 million. Based on the extensive litigation that has been commenced by DSI and others in these cases, the actual fees and costs incurred will probably exceed these projections.

4. DIP Facility.

On September 13, 2011, the Debtors also filed their *Motion for Order (I) Authorizing Debtors to (A) Obtain Interim Postpetition Financing on a Superpriority, Secured and Priming Basis In Favor of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral on an Interim Basis; (C) Providing Adequate Protection to Wells Fargo Capital Finance, LLC; (D) Modifying the Automatic Stay Authorizing the Debtors to Enter Into Postpetition Agreements with Wells Fargo Capital Finance, LLC; and (II) Scheduling, and Establishing Deadlines Relating to a Final Hearing Authorizing the Debtors to Obtain Postpetition Financing and Use of Cash Collateral* (the "**DIP Financing Motion**"). Through the DIP Financing Motion, the Debtors obtained authority to enter into a postpetition financing agreement with Wells Fargo and utilize Wells Fargo's cash collateral, as such term is defined in Bankruptcy Code section 363, so that the Debtors could continue their operations in the Chapter 11 Cases.

On September 22, 2011, this Court entered its *Joint Stipulation and Agreed Interim Order: (I) Authorizing Debtors To (A) Obtain Post-Petition Financing On Super-Priority, Secured And Priming Basis In Favor Of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral On An Interim Basis; (C) Provide Adequate Protection To Wells Fargo Capital Finance, LLC And The Noteholders; And (D) Enter Into Post-Petition Agreements With Wells Fargo Capital Finance, LLC; And (II) Modifying The Automatic Stay* [Docket No. 80] (the "**First Interim Financing Order**"). The Noteholders Committee, the Debtors, and Wells Fargo

thereafter engaged in extensive negotiations regarding continued debtor in possession financing. The Noteholders Committee also sought alternative sources of debtor in possession financing. In order to continue funding operations pending these negotiations, the parties entered into a series of stipulated orders extending the interim approval of debtor in possession financing. *See* Docket Nos. 111, 180, 190, and 221.

The Debtors, the Noteholders Committee, and Wells Fargo negotiated a modified final financing arrangement with Wells Fargo that is memorialized in the *Joint Stipulation And Agreed Final Order: (I) Authorizing Debtors To (A) Obtain Post-Petition Financing On A Super-Priority, Secured And Priming Basis In Favor Of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral On A Final Basis; (C) Provide Adequate Protection To Wells Fargo Capital Finance, LLC And The Noteholders; And (D) Enter Into Post-Petition Agreements With Wells Fargo Capital Finance, LLC; And (II) Modifying The Automatic Stay* [Docket No. 273] (the "**Final Financing Order**"). The Final Financing Order was entered on November 23, 2011.

Pursuant to the Final Financing Order, as amended by subsequent stipulations, the Debtors (or the Noteholders Committee, if it is granted authority by the Bankruptcy Court), are required to file objections to Wells Fargo's Prepetition Claims by set dates. Certain types of objections had to be filed not later than December 31, 2011. Other types of objections had to be filed not later than February 29, 2012 (which was later extended to March 30, 2012).

On December 31, 2011, the Debtors, the Noteholders Committee, and Wells Fargo entered into the *Supplemental Stipulation Relating To The Joint Stipulation And Agreed Final Order: (I) Authorizing Debtors To (A) Obtain Post-Petition Financing On A Super-Priority, Secured And Priming Basis In Favor Of Wells Fargo Capital Finance, LLC; (B) Use Cash Collateral On A Final Basis; (C) Provide Adequate Protection To Wells Fargo Capital Finance, LLC And The Noteholders; And (D) Enter Into Post-Petition Agreements With Wells Fargo Capital Finance, LLC; And (II) Modifying The Automatic Stay* (the "**Supplemental Financing Order**"). The Supplemental Financing Order extended the time period for an authorized representative of the Debtors' estates "to object to or otherwise challenge the

perfection of Wells Fargo's pre-petition security interest in and Liens on the Debtors' Commercial Tort Claims . . . from December 31, 2011 to February 29, 2012."

On February 23, 2012, the Debtors, the Noteholders Committee and Wells Fargo filed with this Court the *Second Supplemental Stipulation Relating to Extension of Time Under the Joint Stipulation and Agreed Final Order; (i) Authorizing Debtors to (A) Obtain Post-Petition Financing on a Super-Priority, Secured and Priming Basis in Favor of Wells Fargo Capital Finance, LLC; and (B) Use Cash Collateral on a Final Basis; and (C) Provide Adequate Protection to Wells Fargo Capital Finance, LLC and the Noteholders; and (D) Enter into Post-Petition Agreements with Wells Fargo Capital Finance, LLC; and (2) Modifying the Automatic Stay* [Docket No. 546], which extends the time to file "Residual Alleged Causes of Action" (as defined in paragraph 1 thereof) to March 30, 2012. The parties thereafter entered into the *Third Supplemental Stipulation Relating to Extension of Time Under the Joint Stipulation and Agreed Final Order; (i) Authorizing Debtors to (A) Obtain Post-Petition Financing on a Super-Priority, Secured and Priming Basis in Favor of Wells Fargo Capital Finance, LLC; and (B) Use Cash Collateral on a Final Basis; and (C) Provide Adequate Protection to Wells Fargo Capital Finance, LLC and the Noteholders; and (D) Enter into Post-Petition Agreements with Wells Fargo Capital Finance, LLC; and (2) Modifying the Automatic Stay* [Docket No. ___], which further extend the deadline to commence Residual Alleged Causes of Action to May 22, 2012, subject to being shortened under certain circumstances.

Wells Fargo has continued to provide debtor in possession financing to the Debtors pursuant to the Final Financing Order throughout the Debtors' Chapter 11 Cases.

5. Motions to Sell Assets and Compromise Claims.

During the chapter 11 cases, the Debtors have sought Bankruptcy Court authority to sell certain assets of the bankruptcy estates and to compromise some of the Notes Receivable owned by the bankruptcy estates. As of January 31, 2012, the Debtors have obtained Bankruptcy Court approval to sell those assets and compromise those claims listed below at the sales prices set forth below.

Property	**Price**	**Sale Order Entered**
Las Colinas Treasure Hills	$4,050,000	Docket No. 110 entered October 11, 2011
Bravo Marshall	$2,000,000	Docket No. 145 entered October 18, 2011
Weyrich Development and JC Reeves Property	$127,500 + $129,000 + $359,000	Docket No. 316 entered December 9, 2011
Pointe Lakeview Homes Lots	$200,000 + $260,000 +$205,000	Docket No. 317 entered December 9, 2011
Vantage Lofts, LLC	Accepted part of collateral and agreed to release part of collateral	Docket No. 318 entered December 9, 2011
Thurston County, Washington Property	$4,000,000	Docket No. 319 entered December 9, 2011
Quincy 132, LLC Note	$1,000,000	No. 442 entered January 25, 2012
Horry County, S.C.	$2,000,000	Docket No. 448 entered January 30, 2012
Pecos Creek Condominiums	$750,000	Docket No. 612 entered March 7, 2012
Moses Pointe LLC Note	$3,255,000	Docket No. 618 entered March 9, 2012
Cotton Wood Hills LLC Note	$812,340.10	Docket No. 618 entered March 9, 2012
Deville Developments LLC Note	$466,875	Docket No. 618 entered March 9, 2012
Anthony & Roberta Kelley Note	$559,650	Docket No. 618 entered March 9, 2012
Dwaine Taylor Note	$115,013	Docket No. 618 entered March 9, 2012

In addition to the foregoing specific authorization orders, the Debtors obtained Bankruptcy Court approval on December 9, 2011, to sell lots owned by the Debtors in the ordinary course of business [Docket No. 316] , and to release the Debtors' deeds of trust on lots being sold in the ordinary course of business in connection with the Lakeview Terrace Development in exchange for established release prices. [Docket No. 317]

In addition to obtaining approval of the sales of specific assets, the Debtors sought

and obtained Bankruptcy Court approval to employ Debt Exchange, Inc. ("**DebtX**") to conduct a sealed bid auction process for the Debtors' Notes Receivable. [Docket No. 272]. DebtX has engaged in this auction process and has obtained bids for a number of the Notes Receivable. None of these sales has yet been approved by the Bankruptcy Court.

DebtX conducted an auction sale of substantially all of the Debtors' Notes Receivable through a closed bid process. DebtX presented the high bids received with respect to each of the Notes Receivable to the Debtors. After conferring with the Noteholders Committee and Wells Fargo, the Debtors concluded that it was appropriate to accept the offers received on five of the Notes Receivable. The hearing on Bankruptcy Court approval of the sales of these five Notes is currently calendared for March 6, 2012.

The Debtors also sought and obtained Bankruptcy Court approval to engage brokers to list all of the Debtors' REO Property for sale. Land Advisors, Inc. ("**Land Advisors**") was engaged to list substantially all of the Debtors' REO Property and to work with individual local brokers with respect to specific properties. [Docket No. 274].

6. Legal Proceedings and Claims.

The material or potentially material pending actions arising out of the Debtors' activities are listed in **Exhibit "F"** hereto.

Recognizing that the automatic stay under the Bankruptcy Code barred further prosecution of their actions as against the Debtors, several parties amended their complaints to voluntarily dismiss their lawsuits as against the Debtors. They sought to continue to prosecute claims against various other parties, including, without limitation, Greenberg Traurig, Wells Fargo, Kelly Ng, Barney Ng, Bruce Horwitz, B-4 Partners and Bar-K. Certain of these defendants have asserted indemnification claims against the Debtors, for their costs of defense and for any potential liability. Wells Fargo has asserted that its indemnification claim is secured by substantially all of the Debtors' Assets. Further prosecution of these lawsuits may result in discovery directed to the Debtors. Moreover, some or all of the claims being pursued in these

state court lawsuits may actually constitute property of the Debtors' Estates, which should be pursued, if at all, by a representative of the Estates for the benefit of all creditors.

Wells Fargo and Greenberg Traurig, each of which has been named in several state court lawsuits, each filed an adversary proceeding in the Bankruptcy Court seeking at least a temporary injunction barring further prosecution of the lawsuits against them. Those adversary proceedings were filed on November 28, 2011, by Wells Fargo, commencing adversary case number 11-03618, and on November 29, 2011, by Greenberg Traurig, commencing adversary case number 11-03620. The parties thereafter stipulated to a temporary stay of the state court lawsuits, pending the briefing in these adversary proceedings of the requests by Wells Fargo and Greenberg Traurig for a longer term injunction. These adversary proceedings and the dispute over whether it is appropriate for the Bankruptcy Court to enjoin further prosecution of the state court actions, either temporarily, pending confirmation of the Plan, or for a more extended period, is currently being briefed in the adversary proceedings and scheduled for a hearing on April 23, 2012.

Wells Fargo asserts that under the Prepetition Loan Documents it is indemnified by the Debtors against not only the costs of defending any lawsuits filed against Wells Fargo arising out of its loan to the Debtors, including, without limitation, the Putative Class Actions that are subject to Wells Fargo's injunctive request. Wells Fargo further contends that its indemnification claims are secured by its first priority Lien on substantially all of the Debtors' assets. The Prepetition Loan Documents do contain indemnification provisions and absent findings of gross negligence or willful misconduct by Wells Fargo, the Debtors believe that there is a substantial risk that Wells Fargo's indemnification claims for the costs of defending lawsuits filed against Wells Fargo may increase Wells Fargo's secured claims.

Greenberg Traurig has also asserted that it is entitled to indemnification for its costs of defense. Greenberg Traurig's indemnification claim, unlike Wells Fargo's asserted indemnification claim, would be a General Unsecured Claim, if it is Allowed. Allowance of an

additional General Unsecured Claim for costs of defense would not materially reduce the Distributions available to other holders of Allowed General Unsecured Claims.

One of the Debtors' borrowers, Rancho Las Flores, LLC, originally sought relief from the automatic stay from the Bankruptcy Court to permit Rancho Las Flores, LLC to sue R.E. Loans in the California Superior Court for the County of San Bernardino to block R.E. Loans' foreclosure on Rancho Las Flores, LLC's assets.[7] Before the final hearing on Rancho Las Flores, LLC's motion for relief from the automatic stay, Rancho Las Flores, LLC unilaterally postponed that hearing and filed a voluntary chapter 11 case. Rancho Las Flores, LLC's chapter 11 case creates an automatic stay that prohibits R.E. Loans from continuing with its pending foreclosure against Rancho Las Flores, LLC. R.E. Loans and Wells Fargo intend to seek relief from the automatic stay in Rancho Las Flores, LLC's chapter 11 case of Rancho Las Flores, LLC to enable them to enforce the note and deed of trust secured by the real property owned by Rancho Las Flores, LLC. The Debtors contend that Rancho Las Flores, LLC does not have any valid defenses to the enforcement of R.E. Loans' note and deed of trust and that even if Rancho Las Flores, LLC had a defense that might otherwise be valid as against R.E. Loans, that defense would not prevent Wells Fargo, in its capacity as a holder in due course of the Note Receivable from Rancho Las Flores, LLC, from enforcing that note and deed of trust. The Debtors intend to promptly proceed with efforts to obtain stay relief and then to foreclose upon substantially all of the assets of Rancho Las Flores, LLC.

DSI filed a motion to transfer venue of the Debtors' cases to the Oakland Bankruptcy Court. DSI filed that motion to transfer in the Oakland Bankruptcy Court based on DSI's contention that Walter Ng and R.E. Loans were affiliates. The Oakland Bankruptcy Court denied that motion on January 25, 2012, based on a determination that DSI had filed its motion

[7] After the Petition Date, but without actual knowledge of the commencement of the Debtors' chapter 11 cases, Rancho Las Flores, LLC filed counterclaims in the Superior Court for the County of San Bernardino, alleging claims against both Wells Fargo and R.E. Loans, LLC. Wells Fargo has asserted that its costs of defending against any such claims in any context are recoverable pursuant to the indemnification provisions in the Prepetition and Postpetition Loan Documents.

in the wrong court, because Walter Ng and R.E. Loans are not affiliates.

The Noteholders Committee filed a motion to transfer venue of these cases to the Oakland Bankruptcy Court on January 31, 2012 [Docket No. 457]. On February 3, 2012, certain Noteholders who have filed the Putative Class Actions in the California State Court, also filed a motion to transfer venue of the Debtors' chapter 11 cases to the Oakland Bankruptcy Court [Docket No. 475]. These Noteholders also filed motions to transfer the adversary proceedings filed by Wells Fargo and Greenberg Traurig that seek to stay further prosecution of the Putative Class Actions to the Oakland Bankruptcy Court.

The Bankruptcy Court denied each of the motions to transfer venue of the Debtors' chapter 11 cases and the adversary proceedings to the Oakland Bankruptcy Court.

DSI has filed the First Objection and the Second Objection to the Noteholders' Claims, which are described in more detail at Section III.D.2., above. Neither the First Objection nor the Second Objection was properly noticed and scheduled for hearing. The Plan Compromise would render the First Objection and the Second Objection moot.

On March 22, 2012, DSI filed *Development Specialists, Inc.'s Expedited Motion To Establish Procedures For Noteholder Claim Objections, Select Test Cases, And Abate Objection Deadlines* [Docket No. 663]. DSI requested that this motion be scheduled for hearing on an expedited basis. On March 29, 2012, the Bankruptcy Court denied DSI's request to have this motion heard on an expedited basis. The Debtors and the Noteholders Committee contend that this motion will also be rendered moot by the proposed Plan Compromise or the subordination of the Noteholders' Claims under the Plan and, therefore, should not be considered by the Bankruptcy Court prior to the completion of the Confirmation Hearing.

On March 14, 2012, DSI filed *Development Specialists, Inc.'s Motion to Appoint a Chapter 11 Trustee* [Docket No. 640], which it supplemented with Docket No. 710 on March 30, 2012 (the "**Trustee Motion**"). DSI contends that a chapter 11 trustee should be appointed because Mackinac and Stutman, Treister & Glatt Professional Corporation, counsel for the Debtors, allegedly delayed the filing of the chapter 11 cases for improper purposes in an

effort to shield Greenberg Traurig, LLP, and/or insiders from potential litigation claims. The Debtors and the Noteholders Committee believe that the Trustee Motion is unfounded and that the allegations of misconduct by Mackinac and Stutman, Treister & Glatt Professional Corporation are meritless. DSI also alleges in the Trustee Motion that the Plan as previously filed contained a global release of all prepetition Causes of Action that might otherwise exist against Mackinac or Stutman, Treister & Glatt Professional Corporation. The Debtors do not believe that the Debtors have any prepetition Causes of Action against Mackinac or Stutman, Treister & Glatt Professional Corporation. Moreover, Mackinac's terms of employment with respect to its prepetition activities include indemnification provisions that would be triggered if any such claims were asserted against Mackinac. There was, however, nothing in the Plan as previously filed that released any Causes of Action that the Debtors might have based on any pre-petition alleged misconduct. While the Debtors believe that the Plan as previously filed contained no release of any such prepetition Causes of Action, DSI contends otherwise. The Debtors have, therefore, amended the Plan to make this unambiguously clear. DSI's Trustee Motion is calendared for hearing on April 24, 2012.

IV.

THE CHAPTER 11 PLAN

A. Overview of the Plan.

The following is only a brief summary of the material terms of the Plan. Creditors, Interest Holders and other parties in interest are urged to review the Plan in its entirety.

The objective of the Plan is to vest all Assets of the Debtors, other than Causes of Action, in the Reorganized Debtors and to transfer the equity in the Reorganized Debtors and all Causes of Action to the Liquidating Trust, which shall liquidate such Trust Assets and distribute the proceeds thereof to the Beneficiaries. The Plan also provides for the Plan Compromise, which, if accepted by REL Class 8 (the Noteholders and DSI), will settle disputes regarding the Liens of the holders of claims in REL Class 8 and the enforceability and priority of the claims in

REL Class 8. If REL Class 8 accepts the Plan and thereby approves the Plan Compromise, the holders of REL Class 8 will be treated as General Unsecured Claims *Pro Rata* with all other General Unsecured Creditors. If REL Class 8 rejects the Plan, on or prior to the Confirmation of the Plan, the Debtors will seek to subordinate the claims and Liens of REL Class 8, as a part of the Plan confirmation process, without any separate adversary proceeding.

Wells Fargo has agreed (subject to certain terms and conditions) to provide the Wells Fargo Exit Facility, under which it will fund the Reorganized Debtors' operations post-petition and an agreed amount as initial "seed capital" to the Liquidating Trust. The Liquidating Trust would use this initial capital to fund its investigation and prosecution of Causes of Action. The Plan also provides a mechanism for a potential settlement of Noteholders' direct claims against Wells Fargo, on a purely voluntary basis. If 100% of the Noteholders check the box on the Ballot agreeing to release Wells Fargo (and the Wells Fargo Group), Wells Fargo will deliver to the Liquidating Trustee for the sole benefit of the Noteholders that elect to provide the Voluntary Third-Party Release pursuant to Section 10.7 of the Plan, the sum of $3,000,000, subject to prior written approval of the Wells Fargo Credit Committee. This $3,000,000 would be distributed *Pro Rata* to the Noteholders. If the Noteholders approve the Voluntary Third-Party Releases, their rights to distributions from the Trust Assets, including Causes of Action, shall be assigned to Wells Fargo, until Wells Fargo recovers $1,500,000 of the $3,000,000 initial contribution. No Holder of a Class 8 Claim is required to participate but the creation of this $3,000,000 fund provides an additional source of recovery for those who do elect to participate. The Voluntary Third-Party Release will be effective and the $3,000,000 will be funded only if (1) every Holder of a Class 8 Claim elects to grant the Voluntary Third-Party Release; and (2) the Wells Fargo Credit Committee approves this provision.

The treatment under the Plan of Allowed Claims and Allowed Interests is in full and complete satisfaction of the legal, contractual, and equitable rights that each entity holding an Allowed Claim or an Allowed Interest may have in or against the Debtors or their property. This treatment supersedes and replaces any agreements or rights those entities have in or against

the Debtors or their property. All Distributions under the Plan will be tendered to the Person holding the Allowed Claim. **EXCEPT AS SPECIFICALLY SET FORTH IN THE PLAN, NO DISTRIBUTIONS WILL BE MADE AND NO RIGHTS WILL BE RETAINED ON ACCOUNT OF ANY CLAIM OR INTEREST THAT IS NOT AN ALLOWED CLAIM OR ALLOWED INTEREST.**

B. Allowance and Treatment of Unclassified Claims (Administrative Claims and Priority Tax Claims).

1. Administrative Claims.

Except to the extent that any entity entitled to payment of any Allowed Administrative Claim agrees to a less favorable treatment or unless otherwise ordered by the Court, each holder of an Allowed Administrative Claim shall receive in full satisfaction, discharge, exchange and release thereof, Cash in an amount equal to such Allowed Administrative Claim on the later of (i) the Effective Date, and (ii) the fifteenth (15^{th}) Business Day after such Administrative Claim becomes an Allowed Administrative Claim, or, in either case, as soon thereafter as is practicable; provided, however, that Ordinary Course Administrative Claims shall be paid in full in accordance with the terms and conditions of the particular transactions and any applicable agreements or as otherwise authorized by the Court. The Plan also requires payment in full of the U.S. Trustee fees, and procedures for the allowance and payment of professional fee claims. The Plan provides an Administrative Claims Reserve.

a. Administrative Expense Bar Date.

All Administrative Expense Requests must be filed with the Bankruptcy Court no later than the Administrative Expense Bar Date or be forever barred. Within ten (10) business days after the Effective Date, the Debtors shall serve notice of the Effective Date and the Administrative Expense Bar Date on all creditors and parties in interest. Holders of Ordinary Course Administrative Expenses shall not be required to file Administrative Expense Requests for allowance and payment of such Claims. The deadline for filing final applications for

allowance and payment of Professional Fee Claims shall be governed by Section 4.1(d) below.

b. Deadline for Objections.

Any objection to the allowance of an Administrative Expense, other than an Ordinary Course Professional Claim or a Professional Fee Claim, must be filed no later than sixty (60) days after the expiration of the Administrative Expense Bar Date (the "**Administrative Expense Objection Deadline**"). The Administrative Expense Objection Deadline may be extended only by an order of the Bankruptcy Court. If no objection to the allowance of an Administrative Expense is filed on or before the Administrative Expense Objection Deadline, such Administrative Expense shall be deemed Allowed as of such date.

The Debtors believe that all administrative priority expenses incurred in the ordinary course of business, with the exception of professional fees, will be paid in full in cash from draws under the DIP Facility. It appears that the professional fees incurred during the chapter 11 cases may exceed the amount set forth in the budget. These additional professional fees and costs will either be (i) funded by Wells Fargo, at its option through an increase in the Approved Budget under the Final Financing Order or the Wells Fargo Exit Facility, or (ii) payable only after the Wells Fargo Exit Facility is indefeasibly paid in full in cash, pursuant to the terms of the Final Financing Order. No reserve will be required for this excess.

2. Priority Tax Claims.

The Debtors do not believe that there are any Priority Tax Claims. The Internal Revenue Service has filed a Priority Tax Claim of approximately $6,000. The Debtors do not believe that any of the other proofs of claim filed assert Priority Tax Claims.

Priority Tax Claims are Claims entitled to priority against the Estates under Bankruptcy Code section 507(a)(8). Except to the extent that a holder of an Allowed Priority Tax Claim has been paid by the Debtors before the Effective Date or agrees to a less favorable treatment, each holder of an Allowed Priority Tax Claim shall receive in full satisfaction, discharge, exchange and release thereof, Cash in an amount equal to such Allowed Priority Tax

Claim on the later of (i) the Effective Date and (ii) the fifteenth (15th) Business Day after such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is practicable. On the Effective Date, the Priority Tax Reserve shall be funded in Cash. Distributions shall be made to Holders of Allowed Priority Tax Claims from the Priority Tax Claim Reserve by the Reorganized Debtors.

Except as otherwise ordered by the Court, to the extent the Priority Tax Claim Reserve has insufficient funds to pay all Priority Tax Claims in full, the Liquidating Trustee is authorized and directed to use net Liquidating Trust Proceeds to ensure payment, in full, of all Allowed Priority Tax Claims Any amounts remaining in the Priority Tax Reserve after payment of all Allowed Priority Tax Claims shall be turned over to Wells Fargo and applied against the balance due under the Wells Fargo Exit Facility.

3. DIP Financing Claims.

Notwithstanding anything else contained in this Disclosure Statement, the Plan or the Confirmation Order, or any amendments thereto, and notwithstanding the confirmation of the Plan, the holder of the DIP Financing Claim, which is a secured Administrative Claim, shall be entitled to all of the Liens, protections, benefits, and priorities granted under the DIP Financing Order. All such Liens, protections, benefits, and priorities shall continue until the DIP Financing Claim is indefeasibly paid in full under the terms of the Wells Fargo Exit Facility, which secured Administrative Claim, by reason of the DIP Financing Order, (a) is allowed and payable in its entirety, (b) includes principal, accrued but unpaid interest, and attorneys' fees, costs, and expenses through the date of the full and indefeasible payment in cash of the DIP Financing Claim (subject to the terms and conditions in the DIP Financing Order regarding attorneys' fees and expenses), and (c) is secured by the valid, unavoidable and perfected Liens and security interests granted under, or in connection with the Wells Fargo Loan Documents and authorized by the DIP Financing Order, which is subject only to Permitted Senior Liens as defined in the DIP Financing Order. All payments of the DIP Financing Claim through the Effective Date shall be deemed to have been indefeasibly paid in full in Cash upon

the closing and funding of the Wells Fargo Exit Facility on the Effective Date.

The Debtors' best estimate is that the balance owing to Wells Fargo as of the Effective Date, assuming the Effective Date is on or about June 30, 2012, will be approximately $67.3 million. This will include the draw to pay other administrative claims in the chapter 11 cases, other than any Deferred Professional Fees. The net balance owing to Wells Fargo for DIP Financing claims as of April 1, 2012, was $7,126,344. The net balance owing to Wells Fargo as of April 1, 2012 with respect to Wells Fargo's prepetition claims, was approximately $60.3 million.

C. Classification and Treatment of Claims.

The Classification and treatment of all Allowed Claims and Interests is set forth in Article V of the Plan and summarized at Section II.B of this Disclosure Statement. All Creditors are urged to review the Plan provisions in detail.

The bar date for filing claims was March 6, 2012. The Internal Revenue Service filed a priority claim in the amount of $6,000 and the Securities and Exchange Commission filed a contingent general unsecured claim in an unliquidated amount. The United States Department of Labor also filed a contingent, unliquidated claim, based on the administration of the employee benefit plans of Bar-K, Inc.

A number of Noteholders have filed proofs of claim. These proofs of claim are duplicative of and need to be reconciled with the Debtors' schedules. The Debtors do not believe that the proofs of claim filed by the Noteholders materially alter the total claims in these chapter 11 cases.

Several adverse parties in connection with litigation have also filed proofs of Claim. The Debtors believe that they have valid defenses to these Claims, but the Claims filed total almost $500 million. The vast bulk of these Claims consist of the Claims filed by the following three entities:

Claimant	Amount
Rancho Las Flores, LLC	$400 million
MF'08	$66 million
Aegon	$21.1 million

Rancho Las Flores, LLC is a borrower that actually owes the Debtors nearly $100 million. The merits of the dispute with Rancho Las Flores, LLC are described in Section III.I.6. The nature of the dispute with MF'08 is described in section III.G., above. The Debtors have obtained a summary judgment against Aegon quieting title to collateral in which both parties asserted liens and the Debtors believe that there is no basis for Aegon's proof of Claim.

D. The Plan Compromise.

1. Terms of Plan Compromise.

Which creditors will receive Distributions from the Liquidating Trust in what order will depend on whether REL Class 8 (the Noteholders and DSI) votes to accept the Plan and implement the Plan Compromise. The Plan Compromise proposes what the Debtors believe is a fair and equitable resolution of disputes over the validity, priority and enforceability of the Class 8 Claims and their Liens, which will be implemented only if Class 8 votes to accept the Plan.

If Class 8 rejects the Plan, then the Debtors, on or prior to the confirmation of the Plan, will seek to subordinate the Exchange Notes (and DSI's Claim, as the prior collateral agent for the Noteholders), the Liens securing the same, as a part of the Plan confirmation process.

DSI has objected to the Noteholders' Claims, arguing that the Exchange Notes are unenforceable as constructive fraudulent transfers and/or as improper distributions to former equity holders. The Debtors believe that if these objections were successful the Noteholders (and DSI) would be entitled to subordinated Unsecured Claims that would receive payments only

after General Unsecured Claims are paid in full, but before any Claims subject to subordination under Bankruptcy Code § 510(b) receive any distribution. In addition, the Noteholders (and DSI) might be liable to return all payments made to them after the Exchange Agreement, if R.E. Loans was insolvent when such payments were made. These payments total more than $120,000,000.

The Plan Compromise proposes to settle the foregoing disputes on the following terms if Class 8 votes to accept the Plan:

1. The Liens securing Class 8 Claims will be released;

2. Holders of Class 8 Claims will receive Beneficial Trust Interests entitling them to share *Pro Rata* with General Unsecured Creditors in all distributions from the Liquidating Trust; and

3. The Potential Recovery Remedies relating to all payments made to any Holder of Class 8 Claims after the Exchange Agreement. The preservation of the Potential Recovery Remedies is intended to address the perceived unfairness and the allegations that have been made that insiders and their "friends and family" allegedly received preferential cash payments after the Exchange Agreement.

2. Treatment of Class 8 If Plan Compromise Is Not Approved.

If REL Class 8 votes to reject the Plan, the Plan Compromise will not be implemented, and the Plan provides for the subordination of the Allowed Claims in REL Class 8 and the issuance of Senior Subordinated Trust Interests, which will entitle the Holders to distributions from the Liquidating Trust only after Allowed General Unsecured Claims are paid in full. If REL Class 8 votes to reject the Plan, Confirmation will be conditioned on entry of a Bankruptcy Court order (which may be the Confirmation Order) ruling that the REL Class 8 Claims are subordinate to Allowed General Unsecured Claims, either as constructive fraudulent transfers or as improper distributions to former members, with the avoidance of such Liens. If Class 8 rejects the Plan and the Bankruptcy Court rules that Class 8 Claims are not subordinated, the Plan cannot be confirmed in its present form.

3. Comparison of Approval of Plan Compromise To Rejection of Plan Compromise.

Whether the amount available from the liquidation of the REO Property and the Note Receivable Claims (and the prosecution of Causes of Action) will be distributed to General Unsecured Creditors (Class 5) or to the Noteholders and DSI, or to all General Unsecured Creditors and the Noteholders and DSI *Pro Rata* depends on (1) whether the Plan Compromise is implemented,] (2) whether the Bankruptcy Court determines that DSI's Claim, if any, must be separately classified, and (2) if the Plan Compromise is not implemented, whether the Exchange Notes are avoidable.

If the Plan Compromise is approved, the Noteholders, DSI and General Unsecured Creditors will all share in the proceeds from the REO Property and the Note Receivable (and the prosecution of Causes of Action) on a *Pro Rata* basis. It is not possible to estimate the net distributions to Noteholders and General Unsecured Creditors (Class 5), because it is not possible to predict what net recoveries, if any will be obtained through the prosecution of the Causes of Action, including Avoidance Actions. Based solely on the projected recoveries from the RE Properties and the Notes Receivable, the Debtors project net distributable proceeds in the range of $36.4 million to $63.6 million by the end of 2015. This does not include and could be reduced by legal fees, costs, and expenses incurred by Wells Fargo during the term of the Wells Fargo Exit Facility, any rights of indemnification provided for thereunder[8], including defense costs in connection with the defense of any causes of action that may be prosecuted by the Putative Class Action Plaintiffs, if the Noteholders do not vote to accept the Voluntary Third-Party Release pursuant to the terms of the Plan and Wells Fargo's conduct does not constitute gross negligence or willful misconduct.

[8] Nor does it include any deduction for any amounts that may become due to DSI. If the Court were to determine that DSI's Claim must be separately classified, DSI would be paid from this projected net distributable proceeds in the range of $36.4 million to $63.6 million before any distributions to Noteholders or General Unsecured Creditors. DSI's Claim is for the most part unliquidated. Its filed proof of Claim is less than $200,000. DSI has asserted it is owed more in fees purportedly incurred by DSI in connection with the Cases, but the Debtors contest the allowance of DSI's Claim.

If the Plan Compromise is approved the net distributable proceeds in the range of $36.4 million to $63.6 million, less any indemnification payments or attorneys' fees and costs due to Wells Fargo, will be distributed *Pro Rata* to Holders of Allowed Claims in Class REL 8 (Noteholders and DSI) and Class 5. Class 5 Claims have been filed for almost $500,000, but the bulk of this is in two proofs of Claim, which were MF'08 (approximately $66 million) and Rancho Las Flores, LLC ($400 million). The Debtors believe there are valid defenses to these Claims.

Noteholder Claims total approximately $776 million. Of this sum, approximately $309 million consists of prepetition interest and $467 million consists of principal.

If the Plan Compromise is implemented the estimated distribution solely from the REO Properties and the Notes Receivable, exclusive of any litigation recoveries, to Noteholders, DSI and Class 5 would be approximately 8.1% if the total Allowed Class 5 Claims are $5 million, which the Debtors believe is a reasonable estimate. This recovery by Noteholders would constitute a 13.5% recovery of their principal and 8.1% of principal and interest accrued prior to the Petition Date.

If the Plan Compromise is implemented and if the Allowed Class 5 Claims are $50 million, the *Pro Rata* distribution would drop to approximately 7.7% of principal and interest accrued prior to the Petition Date, and if the Allowed Class 5 Claims were $500 million, the *Pro Rata* distribution would drop to about 5% of principal and interest accrued prior to the Petition Date.

If the Plan Compromise is not approved and the Claims of the Noteholders and DSI are subordinated the General Unsecured Creditors will be entitled to be paid in full before the Noteholders and DSI share in any distributions. The undisputed unsecured Claims are less than $5 million. The total filed General Unsecured Claims are almost $500 million, but the Debtors believe that most of these Claims will be disallowed. How much, if anything, would be available for distribution to the Noteholders under this scenario is dependent on the amount of Allowed Unsecured Claims. There is a risk that the Allowed General Unsecured Claims could

exceed the proceeds of the REO Property and the Notes Receivable and that Noteholders would receive nothing under the Plan, unless from recoveries by the Liquidating Trustee on Causes of Action exceed the balance due to General Unsecured Creditors.

If the Plan Compromise is not implemented and the Claims of the Noteholders are not subordinated, the Plan cannot be confirmed in its present form. If this occurs, the Noteholders would be entitled to all proceeds from the REO Property and the Notes Receivable after Wells Fargo's Claims are indefeasibly paid in full in cash. Based on the Projections in Exhibit "I" this recovery to Noteholders and DSI could be in the range of $36.4 million to $63.6 million, though generating these proceeds would depend on confirmation of a modified Plan. Under this scenario, the Noteholders, DSI and General Unsecured Creditors would share in any net recoveries on account of Causes of Action.

If the Plan Compromise is approved or the Noteholders' Claims are Allowed and not subordinated, then the Noteholders and the General Unsecured Creditors will share in all proceeds of Causes of Action Pro Rata. The calculation of each Holders' Pro Rata share will depend on the amount of the Allowed General Unsecured Claims.

4. Reservation of Other Subordination Rights.

Except as otherwise expressly provided in the Plan and to the limited extent set forth in the Plan Compromise, the Plan does not waive any right to seek to equitably subordinate the Claims held by any party. The Noteholders Committee has informed the Debtors that it believes that all Claims of insiders and affiliated parties, including, without limitation, Walter Ng, Barney Ng, Kelly Ng and Bruce Horwitz, should be equitably subordinated. On the Effective Date, the Liquidating Trustee will be vested all Causes of Action, and with the power to object to Claims and to seek subordination of Claims. Any Claim that is subordinated will be classified in Class 7. Pursuant to Bankruptcy Code § 510(b), Class 7 will include all Claims for fraud or rescission by Noteholders, to prevent Noteholders who have asserted such Claims from receiving better or different treatment than all other Noteholders. Under the Plan, Class 7 is subordinate to all other Classes, including REL Class 8 and REL Class 9, which will not be paid

in full. Therefore, no Distributions will be made to the holder of any Claim in Class 7.

E. Executory Contracts and Unexpired Leases.

Effective upon the Effective Date, the Debtors shall reject all executory contracts and unexpired leases that exist between the Debtor; and any other Person that have not previously been rejected, except the Debtors do not reject those executory contracts and unexpired leases (a) which are listed in Exhibit "1" to the Plan and assumed on the Effective Date, or (b) which are or have been specifically assumed, or assumed and assigned, by the Debtors with the approval of the Court by separate proceeding in the Case.

All Allowed Claims arising from the rejection of executory contracts or unexpired leases, whether under the Plan or by separate proceeding, shall be treated as General Unsecured Claims in the Class for unsecured, nonpriority Claims against the Debtor that is a party to that contract or lease (Class 5).

If the rejection of an executory contract or unexpired lease by the Debtors results in damages to the counterparty to such contract or lease, then a Claim for damages or any other amounts related in any way to such contract or lease shall be forever barred and shall not be enforceable against the Debtors, the Estates or their property, unless a proof of claim is filed with the Court and served on the Reorganized Debtors, the Liquidating Trust and Wells Fargo, within thirty (30) days after the Effective Date. The rejection Claim bar date for leases and contracts rejected prior to the Effective Date, outside of the Plan, shall be, as applicable, (i) the date(s) set forth in the applicable order(s) rejecting such lease or contract or (ii) the Claims Bar Date. The Debtors do not believe that there will be any material claims for damages arising from the rejection of any executory contracts or unexpired leases. The Debtors' best estimate is that the total unsecured claims arising from such rejections will be not more than $300,000.

F. Provisions Governing Plan Implementation.

On the Effective Date, the following shall occur in implementation of the Plan:

(i) all actions, documents and agreements necessary to implement the Plan shall have been effected or executed;

(ii) the Debtors shall have received all authorizations, consents, rulings, opinions or other documents that are determined by the Debtors, with the consent of the Noteholders Committee, to be necessary to implement the Plan; and

(iii) the Debtors shall make all Distributions required to be made on the Effective Date to holders of Allowed Claims pursuant to the Plan.

The Plan will not be consummated or become binding unless and until the Effective Date occurs.

G. Vesting of Assets on the Effective Date.

The Trust Assets will be transferred to the Liquidating Trust on the Effective Date. The Trust Assets will consist of all Causes of Action, an initial cash contribution in an agreed upon amount, and the New Equity Interests in Reorganized R.E. Loans (which will own the New Equity Interests in Reorganized R.E. Future and Reorganized Capital Salvage). The Trust Assets shall be transferred to the Liquidating Trust free and clear of all liens, claims and interests.

All of the Debtors' assets, other than the Trust Assets, will be re-vested in the Reorganized Debtors. The REO Property re-vested in Reorganized R.E. Future and Reorganized Capital Salvage will remain subject to the Liens securing the Intercompany Notes and Secured Tax Claims. All assets re-vested in Reorganized R.E. Loans including, without limitation, all REO Property and all Notes Receivable will remain subject to the first-priority Liens securing Wells Fargo's Prepetition Claims and the Wells Fargo DIP Facility, until such Claims are indefeasibly paid in full in Cash from the proceeds of the Wells Fargo Exit Facility (with the continued secured indemnity in favor of Wells Fargo as the lender under the Wells Fargo Exit Facility). The REO Property re-vested in each of the Reorganized Debtors will also remain subject to the Liens securing Secured Tax Claims to the same extent as they are subject to such Liens immediately prior to the Effective Date. The assets re-vested in Reorganized R.E. Loans

will be subject to the New Second Priority Security Interest of DSI if and only if the Bankruptcy Court requires the separate classification of DSI's Claims, if any, into REL Class 9.

H. Management of the Reorganized Debtors After the Effective Date.

The Reorganized Debtors will file with the Bankruptcy Court the amended operating agreements for Reorganized R.E. Loans and Reorganized R.E. Future and articles of incorporation of Capital Salvage as part of the Plan Supplement, prior to the Confirmation Hearing. These operating agreements shall provide for, among other things, (a) the issuance of the New Equity Interests in Reorganized R.E. Loans to the Liquidating Trust; and (b) a prohibition on the issuance of nonvoting equity securities to the extent, and only to the extent, required by § 1123(a)(6).

At this time, the Debtors anticipate that Mackinac will be the sole manager of Reorganized R.E. Loans and Reorganized R.E. Future and will provide the sole director and president of Capital Salvage. The terms of employment of Mackinac Partners will be governed by agreements filed as part of the Plan Supplement and the Confirmation Order. Any transition in management of the Reorganized Debtors also will be controlled by the agreements. Based on the Wells Fargo Exit Facility, the Debtors anticipate that the Wells Fargo Exit Facility will require that management of the Reorganized Debtors be acceptable to Wells Fargo until the Wells Fargo Exit Facility is indefeasibly paid in full in Cash and all obligations of Wells Fargo under the Wells Fargo Exit Facility are indefeasibly satisfied. It is the Debtors' current intent to proceed with the marketing of assets consistent with the projections set forth in Exhibit "I". The Debtors currently intend to continue employing Land Advisors to market REO. The Debtors intend to obtain title to the properties with respect to which they currently hold Notes Receivable from third party borrowers and to then list those properties with Land Advisors. While it is impossible to predict the future, the Debtors believe that the projections set forth in Exhibit "I" are reasonable for the period after the Effective Date.

I. Debts of the Reorganized Debtors.

The Reorganized Debtors will enter into the Wells Fargo Exit Facility to finance the payments that must be made on the Effective Date and the Reorganized Debtors' future working capital needs. The terms of the Wells Fargo Exit Facility will be set forth in the documents that will be included in the Plan Supplement, if Wells Fargo and the Debtors reach final agreement and Wells Fargo provides the Wells Fargo Exit Facility. The Wells Fargo Exit Facility terms are described in the term sheet for the Wells Fargo Exit Facility, attached hereto as **Exhibit "G"**.

The Debtors are not obligated to proceed with the Wells Fargo Exit Facility, if the Debtors are able to negotiate a better alternative exit facility. In the event that the Debtors do not proceed with the Wells Fargo Exit Facility, Wells Fargo has informed the Debtors that it will demand that, in addition to being indefeasibly paid in full in cash all sums due under the Wells Fargo's Prepetition Claims and the Wells Fargo DIP Facility, it will require adequate security for its indemnification claims based on the various litigation matters described above. Wells Fargo has informed the Debtors that the minimum security it will demand for its indemnification claims, absent a change in circumstances, is no less than $10 million. If the Debtors obtain a commitment for an alternative Wells Fargo Exit Facility that is sufficient to indefeasibly pay in full in cash all sums due under the Wells Fargo's Prepetition Claims and the Wells Fargo DIP Facility on terms that are more favorable than the Wells Fargo Exit Facility, the Debtors will seek to reach an agreement with Wells Fargo on the appropriate form and amount of any security for its indemnification claims and to amend the Plan to provide for an alternative Wells Fargo Exit Facility. At the present time, the Debtors have no commitment from an alternative exit facility lender and intend to proceed with the Wells Fargo Exit Facility.

After the Effective Date, the Reorganized Debtors will have no meaningful debts, other than obligations under the Wells Fargo Exit Facility and Secured Tax Claims. The Reorganized Debtors may also have obligations for Deferred Professional Fees, which are to be

paid after the full and indefeasible payment in Cash to Wells Fargo of all obligations under the Wells Fargo Exit Facility.

J. Liquidating Trust.

1. Effectiveness of the Liquidating Trust.

On the Effective Date, the Liquidating Trust Agreement shall become effective, and, if not previously signed, the Debtors and the Liquidating Trustee shall execute the Liquidating Trust Agreement. The Liquidating Trust is organized and established as a trust for the benefit of the Beneficiaries, as defined below, and is intended to qualify as a liquidating trust within the meaning of Treasury Regulation Section 301.7701-4(d).

2. Beneficiaries.

In accordance with Treasury Regulation Section 301.7701-4(d), the beneficiaries ("**Beneficiaries**") of the Liquidating Trust are the holders of certain Allowed Claims in the Cases. The Holders of Allowed Claims in the following Classes shall receive Beneficial Interests in the Liquidating Trust, as provided for in the Plan and the Liquidating Trust Agreement: Class 5 and REL Class 8.

If REL Class 8 accepts the Plan and the Plan Compromise is implemented, the holders of Allowed Claims in REL Class 8 will receive Beneficial Interests in the Liquidating Trust and the *Pro Rata* calculation for issuance of Beneficial Interests will be based on the aggregate of all claims in Class 5 (General Unsecured Claims) and REL Class 8 (Noteholder claims and the claims of DSI, unless the Bankruptcy Court separately classifies DSI's claims).

The Plan proposes that if REL Class 8 does not accept the Plan and the Plan Compromise, the Debtors, at or prior to the confirmation of the Plan, will subordinate the REL Class 8 Claims to the Claims of General Unsecured Creditors, as a part of the Plan confirmation process.

If the REL Class 8 rejects the Plan, REL Class 8 Claims shall be subordinated by the Plan and the Noteholders will not receive Beneficial Interests. Instead the Noteholders and DSI (unless the Bankruptcy Court requires separate classification of DSI's claim) will receive

the Subordinated Trust Interests, which will entitle them to receive their *Pro Rata* share of the Liquidating Trust Proceeds after all recipients of Beneficial Interests (*i.e.*, Holders of General Unsecured Claims) have received distributions equal to their Allowed Claims.

The Beneficial Interests and Subordinated Trust Interests shall not be transferable except to the very limited extent set forth in the Liquidating Trust Agreement. The Beneficial Interests and Subordinated Trust Interests shall not be certificated.

The Holders of Beneficial Interests and Subordinated Trust Interests, if any, will receive distributions from the Liquidating Trust as provided for in the Plan and the Liquidating Trust Agreement.

3. Implementation of the Liquidating Trust.

On the Effective Date, the Debtors, on behalf of the Estates, and the Liquidating Trustee shall be authorized to, and shall, take all such actions as are required to transfer from the Debtors and the Estates the Trust Assets to the Liquidating Trust. From and after the Effective Date, the Liquidating Trustee shall be authorized to, and shall take all such actions as are required, to implement the Liquidating Trust and the provisions of the Plan as are contemplated to be implemented by the Liquidating Trustee, including administering the Trust Assets, including, without limitation, the Causes of Action. The Liquidating Trustee shall thereafter exercise the rights of the sole member of Reorganized R.E. Loans, subject to any provisions in the Wells Fargo Exit Facility, or the Plan, restricting the change in the Asset Manager before the Wells Fargo Exit Facility is indefeasibly paid in full.

4. Transfer of Trust Assets.

The Trust Assets (*i.e.*, the Causes of Action, the initial cash, and the New Equity Interests in Reorganized R.E. Loans, which will own the New Equity Interests in Capital Salvage and R.E. Future) will be vested in the Liquidating Trust free and clear of all Liens, Claims and Interests. All other assets of each Debtor will be re-vested in the Reorganized Debtors.

On the Effective Date, the Reorganized Debtors shall (1) consummate the Wells Fargo Exit Facility, including, without limitation, the granting to Wells Fargo a new and

continuing first priority Lien on all of their assets, subject only to the Liens securing Allowed Secured Tax Claims (Class 2), and executing and delivering to Wells Fargo all of the Wells Fargo Exit Facility Loan Documents.

IF REL Class 8 does not accept the Plan and the Bankruptcy Court concludes that DSI's Claim as the prior collateral agent for the Noteholders must be classified separately from the claims of the Noteholders, DSI shall retain its second priority Lien on all of the Notes Receivable vested in Reorganized R.E. Loans, pursuant to the New Second Lien Security Agreement. The New Second Lien Security Agreement will subordinate Class 9 to the Wells Fargo Exit Facility and provide that the Reorganized Debtors can transfer any of their assets free and clear of DSI's Lien, so long as the proceeds are used to pay: (1) amounts due to Wells Fargo under the Wells Fargo Exit Facility, (2) Secured Tax Claims, or (3) current operating expenses of the Reorganized Debtors. If DSI's Claim is separately classified, no distribution will be made by the Reorganized Debtors to the Liquidating Trust until the balance owing to DSI that is secured by the New Second Lien Security Agreement is paid in full.

As the result of the foregoing transfers and agreements, (1) the Liquidating Trust will acquire the Trust Assets, including, without limitation, the New Equity Interests in Reorganized R.E. Loans, free and clear of all Liens, Claims and Interests, and (2) the Reorganized Debtors will be re-vested with all Assets of the Debtors that are not Trust Assets, free and clear of all Liens, Claims and Interests, except those granted or preserved under the Plan.

5. Representative of the Estates.

The Liquidating Trustee shall be appointed as a representative of the respective Estates pursuant to sections 1123(a)(5), (a)(7) and (b)(3)(B) of the Bankruptcy Code and as such shall be vested with the authority and powers (subject to the Liquidating Trust Agreement) to set forth in Article VIII of the Plan and the Liquidating Trust Agreement.

6. No Liability Of Liquidating Trustee.

To the maximum extent permitted by law, the Liquidating Trustee and its employees, officers, directors, agents, members, representatives, or professionals employed or retained by the Liquidating Trustee (the "Liquidating Trustee's Agents") shall not have or incur liability to any Person or governmental entity for an act taken or omission made in good faith in connection with or related to the administration of the Trust Assets, the implementation of the Plan and the Distributions made thereunder or Distributions made under the Liquidating Trust, subject to the provisions of the Liquidating Trust Agreement. The Liquidating Trustee and the Liquidating Trustee's Agents shall in all respects be entitled to reasonably rely on the advice of counsel with respect to their duties and responsibilities under the Plan and the Liquidating Trust. Entry of the Confirmation Order constitutes a judicial determination that the exculpation provision contained in Section 10.5 of the Plan is necessary to, *inter alia*, facilitate Confirmation and feasibility and to minimize potential claims arising after the Effective Date for indemnity, reimbursement or contribution from the Estates, or the Liquidating Trust, or their respective property. Notwithstanding the foregoing, nothing in this Section shall alter any provision in the Liquidating Trust Agreement that provides for the potential liability of the Liquidating Trustee to any Person or governmental entity.

K. <u>The Noteholders Committee.</u>

Until the Effective Date, the Noteholders Committee shall continue in existence. As of Effective Date, the Noteholders Committee shall terminate and disband and the members of the Noteholders Committee and the Noteholders Committee shall be released and discharged of and from all further authority, duties, responsibilities and obligations related to and arising from their service as Noteholders Committee members.

L. The Source of Distributions.

The sources of all Distributions and payments under the Plan are Cash, including Cash in any Reserves, advances under the Wells Fargo Exit Facility, and Liquidating Trust Proceeds.

M. Deemed Cancellation of Notes In Exchange for Treatment Under The Plan.

As of the Effective Date, and whether or not surrendered by the Holder thereof, all existing Exchange Notes and any Lien securing the existing Exchange Notes, shall be deemed automatically cancelled and deemed void and of no further force or effect, without any further action on the part of any person, and any Claims under or evidenced by any such Exchange Notes shall be deemed fully discharged and exchanged for the rights provided to the Noteholders under the Plan.

N. Distribution of Property Under the Plan.

1. Manner of Cash Payments.

Cash Distributions made pursuant to the Plan shall be in United States funds, by check drawn on a domestic bank, or by wire transfer from a domestic bank.

2. Setoff and Recoupment.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE PLAN, THE REORGANIZED DEBTORS, AND LIQUIDATING TRUSTEE MAY SET OFF, RECOUP, OR WITHHOLD AGAINST THE DISTRIBUTIONS TO BE MADE ON ACCOUNT OF ANY ALLOWED CLAIM ANY CLAIMS THAT THE DEBTORS OR THE ESTATES MAY HAVE AGAINST THE ENTITY HOLDING THE ALLOWED CLAIM. THE DEBTORS, THE ESTATES, THE REORGANIZED DEBTORS AND THE LIQUIDATING TRUST WILL NOT WAIVE OR RELEASE ANY CLAIM AGAINST THOSE ENTITIES BY FAILING TO EFFECT SUCH A SETOFF OR RECOUPMENT, BY ALLOWING ANY CLAIM AGAINST THE DEBTORS OR THE ESTATES, OR BY MAKING A DISTRIBUTION ON ACCOUNT OF AN ALLOWED CLAIM.

3. No Distributions With Respect to Disputed Claims and Interests.

Notwithstanding any other Plan provision, Distributions will be made on account of a Disputed Claim only after, and only to the extent that, the Disputed Claim either becomes or is deemed to be an Allowed Claim for purposes of Distributions.

4. Undeliverable or Unclaimed Distributions.

The treatment of Distributions that cannot be delivered or are returned undeliverable is set forth in Section 10.1(e) of the Plan.

O. <u>Disputed Claims.</u>

1. Reserves for Administrative Claims.

On the Effective Date, the Administrative Claims Reserve shall be funded with sufficient monies to pay for all Allowed Administrative Claims and Disputed Claims that are Administrative Claims (in the event such claims become Allowed Claims) other than Deferred Administrative Fees. Any Cash remaining in the Administrative Claims Reserve, after all applicable Distributions or other payments have been made from said Reserve, shall be paid to Wells Fargo and applied to the balance owing under the Wells Fargo Exit Facility.

2. Disputed Claims.

The procedures for dealing with Disputed Claims and establishing the Disputed Claims Reserve are set forth in Section 10.2(b) of the Plan.

3. Record Date.

The record date for purposes of Distributions under the Plan shall be the date the Court enters its order approving this Disclosure Statement. The Debtors and/or Liquidating Trustee will rely on the register of proofs of claim filed in the Case except to the extent a notice of transfer of Claim or Interest has been filed with the Court prior to the record date pursuant to Bankruptcy Rule 3001.

V.

OTHER PLAN PROVISIONS

A. Exculpation and Release of Debtors, Noteholders Committee, the Wells Fargo Group , and Professionals of the Estates.

Any and all Claims, liabilities, causes of action, rights, damages, costs and obligations held by any party against the Debtors, Mackinac Partners, Wells Fargo Group, the Noteholders Committee, and their respective attorneys, accountants, agents and other professionals, and their officers, directors, principals, and employees, whether known or unknown, matured or contingent, liquidated or unliquidated, existing, arising or accruing, whether or not yet due in any manner, relating to any act taken or omitted to be taken on or after the Petition Date in connection with, related to, or arising out of the Cases, the formulation, preparation, dissemination, implementation, confirmation, approval, or administration of the Plan or any compromises or settlements contained herein, the Disclosure Statement related thereto, the property to be distributed under the Plan, or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Plan, shall be deemed fully waived, barred, released and discharged in all respects, except as to rights, obligations, duties, claims and responsibilities preserved, created or established by terms of the Plan; provided, however, nothing herein shall release any party to the extent that such claims arise from their respective willful misconduct or gross negligence; provided, further, that the foregoing proviso shall not limit the scope of the release under Section 10.7 of the Plan, if Class 8 unanimously elects to grant that release or the general release granted to the Wells Fargo Group under Section 10.6 of the Plan and the Wells Fargo Exit Facility. Except as provided in Section 4.7 of the Plan and the Plan Compromise, (1) the Plan does not release any Claims, liabilities, Causes of Action, rights, damages, costs or obligations held by any of the Debtors, the Debtors' Estates or the Reorganized Debtors against any party other than the Wells Fargo Group, including without limitation any claims against the Debtors current or former professionals or management for acts or omissions prior to the Petition Date, and (2) no such release is being granted by any of the Debtors under the Plan, though the

Debtors reserve the right to seek authority to release or settle claims prior to the Effective Date if the Debtors believe that doing so is in the best interests of Creditors and the Estates.

Pursuant to section 1125(e) of the Bankruptcy Code, the Debtors, Mackinac Partners, the Wells Fargo Group, and the Noteholders Committee and their present and former members, officers, directors, employees, agents, advisors, representatives, successors or assigns, and any Professionals (acting in such capacity) employed by any of the foregoing entities will neither have nor incur any liability to any Person or governmental entity for their role in soliciting acceptance or rejection of the Plan in good faith.

B. Release of the Wells Fargo Group by the Estates.

The Wells Fargo Release shall be effective from and after the Effective Date unless (1) Wells Fargo is not the Exit Lender, (2) the Plan is amended to delete this provision, and (3) the treatment of the Class 1 Claims is modified to provide for protection of Wells Fargo's indemnification claims arising from the prosecution of Causes of Action against Wells Fargo consistent with the terms of the DIP Financing Order, which provide for the indefeasible payment in full of the Wells Fargo's Prepetition Claims and the DIP Credit Facility. The Plan defines the "Wells Fargo Release" as meaning that by the Plan, and effective as of the Effective Date, for good and valuable consideration, the Debtors, their Estates, the Reorganized Debtors, and any Person seeking to exercise the rights of the Debtors or the Debtors' Estates, including estate representatives shall be deemed to completely and forever release, waive, void, extinguish, and discharge all Claims, Causes of Action (including, but not limited to, any actions arising under Chapter 5 of the Bankruptcy Code), obligations, suits, judgments, remedies, damages, demands, debts, rights, and liabilities whatsoever, that may be asserted by any of the Debtors, their Estates, or the Reorganized Debtors, or any party acting by, through, or under the Debtors, their Estates, or the Reorganized Debtors, against the Wells Fargo Group (or any member

thereof), whether liquidated or unliquidated, fixed or contingent, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise, that are based in whole or in part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date, relating in any way to the Debtors, the Reorganized Debtors, the Debtors' Estates, the Cases, or the Plan, which general release shall further be incorporated into the Confirmation Order; the Wells Fargo Release shall include a full and complete release in favor of the Wells Fargo Group as to (i) the alleged causes of action described in the February 29, 2012 Motion to Assert Standing, raised by the Noteholders Committee; (ii) additional causes of action that arose out of the conduct, transaction, or occurrence set out—or attempted to be set out—in the Motion for Standing and the amendment thereto; and (iii) all other objections, challenges, avoidance actions, and claims of any kind or nature against Wells Fargo, its pre-petition claims, and pre-petition liens, as more fully described in the applicable provisions of the DIP Financing Order, all of which are barred and waived, effective as of the Effective Date; provided, however, that nothing herein shall be deemed a waiver or release of any right of the Debtors or the Reorganized Debtors to enforce the terms of the Wells Fargo Exit Facility.

C. Voluntary Third-Party Release.

The Voluntary Third-Party Release shall be effective if and only if 100% of all Noteholders check the box and agree to provide the Voluntary Third-Party Release and Wells Fargo's Credit Committee approves in writing the terms of Section 10.7 of the Plan.

If the foregoing conditions are satisfied, as of the Effective Date, all Holders of a Class 8 Claim that affirmatively checks the box on their Ballot titled "Voluntary Third-Party Release Pursuant to Plan," will forever release, waive and discharge all Claims, obligations, suits, judgments, remedies, damages, demands, debts, rights, causes of action, and liabilities

whatsoever against the Wells Fargo Group (or any member thereof) and any of their successors and assigns, arising under or in connection with or related to the Debtors, the Debtors' Estates, the conduct of the Debtors' business, the Chapter 11 Cases, the Plan or the Reorganized Debtors, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereunder arising, in law, equity, or otherwise, that are based in whole or part on any act, omission, transaction, event, or other occurrence, taking place on or prior to the Effective Date in any way relating to the Debtors, the Estates, the conduct of the Debtors' businesses, the Chapter 11 Cases, the Plan or the Reorganized Debtors.

If the foregoing conditions are satisfied, in exchange for the Voluntary Third-Party Release pursuant to Paragraph 10.7(b) of the Plan, each of such Noteholders will receive its Pro Rata share of the $3,000,000 cash deposit made by Wells Fargo, and shall assign to Wells Fargo the right to receive distributions on account of the Beneficial Interest or Subordinated Trust Interest which that Holder receives under the Plan, until Wells Fargo has recovered 50% of the cash contributed by Wells Fargo in connection with its seeking the Voluntary Third-Party Releases hereunder.

1. Granting The Voluntary Third-Party Release.

Pursuant to the terms of the Plan and the Disclosure Statement, the Noteholders have the right to accept the proposed settlement payment from Wells Fargo, whether the Noteholders vote to accept or reject the Plan. Each of the Noteholders is free to accept or reject the Plan and to decide separately whether or not to grant the Voluntary Third-Party Release. You are not required to grant the Voluntary Third-Party Release even if you accept the Plan. Granting or declining to grant the release is independent from voting to accept or to reject the Plan. The Voluntary Third-Party Release shall be effective if and only if 100% of all of the Noteholders check the box on the Ballot and agree to provide the Voluntary Third-Party Release and Wells Fargo's Credit Committee approves in writing the terms of Section 10.7 of the Plan.

If the conditions to the settlement are met, including every Noteholder agreeing to grant the Wells Fargo Group the Voluntary Third-Party Release, each of the Noteholders will receive its *pro rata* share of $3 million to be paid by Wells Fargo in exchange for a release of claims the Noteholders may have against Wells Fargo and an agreement to allow Wells Fargo to receive the first $1,500,000 otherwise distributable to the Noteholders from the Liquidating Trust, as more fully described below. If the Voluntary Third-Party Release is accepted by all of the Noteholders, Wells Fargo will be dismissed as a defendant in the Putative Class Action, which is described below.

The Putative Class Action Plaintiffs (as defined herein) believe that the Noteholders should not agree to grant the Voluntary Third-Party Release, even if the Noteholders vote to accept the Plan. Below is a summary of the proposed Third-Party Release and the relative positions of the parties.

If the foregoing conditions are satisfied and all of the Noteholders vote in favor of the Voluntary Third-Party Release, as of the Effective Date, all Holders of a Class 8 Claim that affirmatively check the box on their Ballots titled "Voluntary Third-Party Release Pursuant to Plan," will forever release, waive and discharge all Claims, obligations, suits, judgments, remedies, damages, demands, debts, rights, causes of action, and liabilities whatsoever against the Wells Fargo Group (or any member thereof) and any of their successors and assigns, arising under or in connection with or related to the Debtors, the Debtors' Estates, the conduct of the Debtors' business, the Chapter 11 Cases, the Plan or the Reorganized Debtors, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereunder arising, in law, equity, or otherwise, that are based in whole or part on any act, omission, transaction, event, or other occurrence, taking place on or prior to the Effective Date in any way relating to the Debtors, the Estates, the conduct of the Debtors' businesses, the Chapter 11 Cases, the Plan or the Reorganized Debtors.

If the foregoing conditions are satisfied, in exchange for the Voluntary Third-Party Release pursuant to Paragraph 10.7(b) of the Plan, the Noteholders will receive their Pro

Rata share of the $3,000,000 cash deposit made by Wells Fargo, and shall assign to Wells Fargo the right to receive distributions on account of the Beneficial Interest or Subordinated Trust Interest which that Holder receives under the Plan, until Wells Fargo has recovered $1,500,000 (50% of the cash contributed by Wells Fargo in connection with its seeking the Voluntary Third-Party Releases hereunder).

2. Overview of Putative Class Action Litigation.

ALL HOLDERS OF CLASS 8 CLAIMS (NOTEHOLDERS) PLEASE NOTE THE FOLLOWING: Specifically, there are presently pending in the Alameda County, California Superior Court (the "**California State Court**") certain class action lawsuits filed by certain plaintiffs (the "**Putative Class Action Plaintiffs**"), seeking class action status on behalf of all the Noteholders, including the civil actions entitled: (1) *Noble v. B-4 Partners, LLC, et al*. (Case No. RG 11-593201), (2) *Mendes v B-4 Partners, LLC, et al*. (Case No. RG 11-603095), and (3) *Nolan v. Wells Fargo Capital Finance, LLC, and Greenberg Traurig* (Case No. RG 12-614850) (collectively, the "**Putative Class Actions**").

The Putative Class Action Plaintiffs agreed, and the California State Court has ordered, that the three (3) Putative Class Actions be consolidated (as consolidated, the "**Putative Class Action**"), and the Putative Class Action Plaintiffs have recently filed a consolidated complaint (the "**Consolidated Complaint**"). The Consolidated Complaint includes claims against Wells Fargo and Greenberg Traurig, LLP (counsel to R.E. Loans and other affiliated parties) ("**Greenberg Traurig**"). Other parties, including the Debtors and certain former managers of the Debtors are not included as defendants in the Consolidated Complaint due to their pending voluntary and involuntary bankruptcy proceedings. You can find a copy of the Consolidated Complaint at http://www.reloansclassaction.com.

Pursuant to an order of the Bankruptcy Court, the Putative Class Action has been stayed, and the Debtors, Wells Fargo, and Greenberg Traurig are seeking to continue the stay through the Confirmation of the Plan. The Putative Class Action Plaintiffs believe that important and substantial claims may be actionable against Wells Fargo and Greenberg Traurig for their

conduct, including their actions in connection with the conversion of the Noteholders' membership interests to subordinated secured notes. Wells Fargo denies the allegations in the Putative Class Action. IN THE EVENT THAT THE NOTEHOLDERS RELEASE CLAIMS AGAINST THE WELLS FARGO GROUP PURSUANT TO THE VOLUNTARY THIRD-PARTY RELEASE, THE NOTEHOLDERS WILL NO LONGER BE ABLE TO RECOVER ANY AMOUNTS PURSUANT TO CLAIMS AGAINST WELLS FARGO, AS PRESENTLY ASSERTED IN THE PUTATIVE CLASS ACTION.

Wells Fargo has informed the Debtors that it disputes both the legal and factual bases of any claims or liability against Wells Fargo and believes that such claims set forth in the Putative Class Action are unfounded. Nonetheless, Wells Fargo is prepared to fund a settlement in order to resolve the matters to avoid further litigation costs for all parties concerned.

In the event that the Voluntary Third Party Release is not granted and the Putative Class Action proceeds, Wells Fargo has informed the Debtors that it intends to add to its Secured Claim, which must be paid before any residual value is available from the REO Property and Notes Receivable for other creditors, its costs of defending the Putative Class Action, pursuant to the indemnification provisions contained in the Wells Fargo Loan Documents. Absent a finding of gross negligence or intentional misconduct by Wells Fargo, the Wells Fargo Loan Documents require the Debtors to reimburse Wells Fargo for all of its costs of defense (as and when these are incurred) and any judgment against Wells Fargo. If, however, there is a finding of gross negligence or intentional misconduct against Wells Fargo (as the Putative Class Plaintiffs contend has occurred, and Wells Fargo disputes), Wells Fargo would not be entitled to such indemnification.

If the Voluntary Third-Party Release becomes effective the Noteholders will receive their *Pro Rata* share of the $3,000,000 paid by Wells Fargo (less up to $1,500,000 that may be recouped by Wells Fargo from litigation recoveries) and the Noteholders' distributions from the Debtors' assets may be greater, because Wells Fargo's indemnification Claim will be reduced or eliminated. The claims for relief asserted in the Putative Class Action would be

released in exchange for these benefits. If the Voluntary Third-Party Release is not effective, the payment from Wells Fargo will not be available and Wells Fargo's potential indemnification Claim will be greater (reducing any surplus available to the Noteholders from the REO Property and Notes Receivable), but the Noteholders may recover from Wells Fargo though the Putative Class Action if they are successful.

Notwithstanding anything contained herein, the Plan does not release the claims of any Person against Greenberg Traurig, LLP, Armanino McKenna, Kelly Ng, Bruce Horwitz, Barney Ng, Walter Ng, B 4 Partners or Bar K, Inc.

3. Summary of Positions of Parties.

The causes of action asserted in the Consolidated Complaint include allegations against Wells Fargo for: (i) aiding and abetting breach of fiduciary duty, (ii) secondary liability for securities fraud, and (iii) violation of the California Unfair Competition Law (collectively, the "**Alleged Class Action Claims**"). The Consolidated Complaint alleges that, to remedy its funding problems, R.E. Loans implemented a fraudulent scheme through a series of illegal transactions and deceptions carried out with the active assistance of Wells Fargo and Greenberg Traurig. Wells Fargo denies these claims as they relate to Wells Fargo and asserts that Wells Fargo merely provided a line of credit to R.E. Loans to fund R.E. Loans' operations (the "**Line of Credit**").

(a) Putative Class Action Plaintiffs' Position. According to the Consolidated Complaint, R.E. Loans secretly entered into the Line of Credit with Wells Fargo through which it borrowed roughly $50,000,000 to further fund its cash needs. The Consolidated Complaint alleges that the Line of Credit was problematic in several ways. First, the Line of Credit was secured by all of R.E. Loans' assets. Second, the Line of Credit is alleged to have been in direct violation of R.E. Loans' written representations and promises to its investors that it would not borrow funds from third-party lenders for its operations, or grant liens encumbering all of its assets. The Consolidated Complaint alleges that despite these circumstances, the R.E. Loans' managers decided to proceed with obtaining the Line of Credit from Wells Fargo.

The Consolidated Complaint alleges that, with the knowledge and active assistance of Wells Fargo and Greenberg Traurig, R.E. Loans contrived to convert all of its investors' membership interests into secured promissory notes and to retroactively approve the Line of Credit (and first-priority lien granted in favor of Wells Fargo), with the investors' consents procured by fraud allegedly. It further asserts that using misleading offering materials prepared by Greenberg Traurig that failed to disclose critical information (including R.E. Loans' prior, allegedly, illegal securities sales and its continuing liquidity issues and diminishing asset values), R.E. Loans solicited votes from the investors to obtain approval of the proposed conversion.

The Putative Class Action Plaintiffs believe that, as a result of this alleged fraudulent course of conduct, R.E. Loans' investors' status was diminished from equity owners in a company without material liens or other debt instruments to creditors under high-risk, long-term notes junior to the senior, secured debt owed to Wells Fargo. The Putative Class Action Plaintiffs allege that through the allegedly, unauthorized Line of Credit and exchange agreement, the R.E. Loans' managers stripped the investors of their membership rights and rights of control, leaving them with no means with which to protect their investments. They further allege that in the wake of inevitable defaults by R.E. Loans, Wells Fargo demanded ever-increasing interest rates, penalties, collateral enhancements and fees. The Consolidated Complaint alleges three claims against Wells Fargo on behalf of the Noteholders. First, the Consolidated Complaint alleges that Wells Fargo substantially assisted (aided and abetted) the managers of R.E. Loans in allegedly breaching fiduciary duties the managers owed to R.E. Loans' members. Under California law, the managers of a limited liability company like R.E. Loans owe their members certain fiduciary duties. The Putative Class Action contends that Wells Fargo aided and abetted the R.E. Loans' managers' alleged breaches of these duties by helping the R.E. Loans' managers secretly enter the Line of Credit under which they pledged all of R.E. Loans' assets as security. As a result, the Class Plaintiffs allege that R.E. Loans' members were fraudulently induced to

approve the Line of Credit, and to exchange their membership interests in R.E. Loans for junior secured promissory notes.

Second, the Consolidated Class Action alleges that the exchange of R.E. Loans' membership interests for promissory notes was a securities offering under California law. Any person who -- with knowledge and intent to deceive -- substantially assists another in committing securities fraud is secondarily liable for the same offense. In support of the claim for secondary liability for securities fraud against Wells Fargo, the Consolidated Complaint alleges that, as a condition to making the loan, Wells Fargo required the exchange offering and was involved in the planning and execution of the allegedly fraudulent exchange.

Third, the Consolidated Complaint alleges that Wells Fargo's actions as described above result in a violation of the California Unfair Competition Law because its conduct constitutes an unfair business practice in violation of this law.

(b) Wells Fargo's Position. Wells Fargo contends that the proposed $3 million distribution, subject to Wells Fargo's right to receive the first $1,500,000 otherwise distributable to the Noteholders from litigation recoveries, in exchange for the Voluntary Third-Party Release of all claims against Wells Fargo, including the Putative Class Action claims described above, is fair and reasonable considering the circumstances. Wells Fargo contends that there was nothing improper with the terms of the Line of Credit. In particular, Wells Fargo contends that obtaining a lien on all of a borrower's assets to secure the repayment of a commercial loan is standard within the asset-based lending industry. In doing so, Wells Fargo asserts that it is only entitled to receive the amounts owed under the Line of Credit. Once that amount is paid back to Wells Fargo, the outstanding liens on all of the Debtors' assets are then released.

Wells Fargo contends that there was nothing secret about the Line of Credit and that it was specifically disclosed in the exchange offering to the Noteholders and was a matter of public record and easily accessible (by reason of Wells Fargo having filed its financing statement with the California Secretary of State's office.) Wells Fargo contends that it had no part in

preparing the exchange offering, had no communications whatsoever with the Noteholders, and that if there was any improper activity on the part of R.E. Loans' management, Wells Fargo had no involvement with such improper activity. Rather, Wells Fargo was simply providing a funding source that R.E. Loans requested to help meet R.E. Loans' working capital needs as the real estate market began to worsen and R.E. Loans, , in turn began to experience liquidity problems. Wells Fargo asserts that there is no evidence that prohibits R.E. Loans from being able to borrow funds from third-party lenders, and (as with most, if not all operating entities), R.E. Loans' governance documents do not prohibit this type of borrowing. The Debtors' professionals are aware of no restriction in R.E. Loans' operating agreement that barred borrowings by R.E. Loans. Prior to funding by Wells Fargo, R.E. Loans had borrowed funds from a different lender. Wells Fargo received an opinion letter from Greenberg Traurig indicating that R.E. Loans, in fact, had the authority to enter into the Wells Fargo loan agreement. Wells Fargo further asserts that there is no evidence that Wells Fargo made any representations to any of the Noteholders and that Wells Fargo did not assist R.E. Loans or its managers in any alleged wrongdoing.

Wells Fargo contends that it had no knowledge of any alleged breaches of fiduciary duty, securities violations, or any other violations to support the Alleged Class Action Claims against Wells Fargo. As opposed to diminishing the value of the membership interests of the Putative Class Action Plaintiffs, Wells Fargo believes that the conversion from membership interests to the Noteholders actually improved the Noteholders' status as junior lien holders, especially once the bankruptcy proceedings were initiated (for if the Noteholders remained as members, they would be given less priority than the Noteholders are given in the bankruptcy proceedings). Thus, even if the allegations against Wells Fargo in the Consolidated Complaint were true, Wells Fargo contends that none of those alleged actions would have caused the Noteholders to suffer any damages.

(c) Indemnification. If the Putative Class Action is not settled, the costs of prosecution and the costs of defense could be millions of dollars. As part of the Wells Fargo

Loan Documents, R.E. Loans agreed to indemnify Wells Fargo to the fullest extent permitted by law and such indemnification is part of Wells Fargo's secured claim against R.E. Loans. Pursuant to this indemnification provision, Wells Fargo asserts that all of Wells Fargo's legal fees and any judgment obtained in the Putative Class Action are recoverable against the Debtors with priority over the claims of the Noteholders. If Wells Fargo is correct, and Wells Fargo prevails in the Putative Class Action, the potential recovery by the Noteholders from the Debtors would be reduced by the amount of Wells Fargo's legal expenses to defend the Putative Class Action. Even if the Putative Class Action results in a judgment against Wells Fargo, Wells Fargo asserts that such judgment would be subject to the secured indemnification and the potential recovery by the Noteholders from the Debtors would be reduced by the amount of the judgment. The Putative Class Action Plaintiffs, on the other hand, assert that Wells Fargo's secured indemnification does not cover Wells Fargo for "gross negligence or willful misconduct." The Putative Class Action Plaintiffs assert that the conduct described in the Consolidated Complaint equates to willful misconduct, and if the Putative Class Action results in a judgment against Wells Fargo, such judgment, and the legal fees expended by Wells Fargo in its defense, will not be recoverable as a secured indemnity claim of Wells Fargo.

(d) Debtors' Position. The Debtors recognize that the Noteholders must make their own decision regarding the wisdom of voting for or against the Third-Party Releases. If the Voluntary Third-Party Release is not granted by the Noteholders, Wells Fargo will assert the indemnification claim described above, which will, if allowed, be secured by Wells Fargo's Lien and, therefore, will reduce any recovery that may be available to the Noteholders after the full and indefeasible payment of the Wells Fargo senior debt. Moreover, the Putative Class Action will impose significant costs and time commitments on the Debtors, who will be forced to respond to and participate in discovery. The extent of this cost and time commitment will likely be reduced if the Noteholders' claims against Wells Fargo are resolved through a Voluntary Third-Party Release, though this expense would not be eliminated entirely because the Putative

Class Action would not be fully resolved because Greenberg Traurig is another defendant in addition to Wells Fargo.

(e) Effect of Third-Party Release. The Putative Class Action Plaintiffs cannot guarantee that they will prevail on any of the claims against Wells Fargo. The Putative Class Action is at an early stage, no discovery has occurred and the action has been temporarily stayed by the Debtors' bankruptcy proceedings. Nor can the Putative Class Action Plaintiffs offer any guarantees or make any predictions about the amount of recovery, if any, should they prevail in the Putative Class Action, or for that matter what the costs of prosecution might be and when, if at all, such recovery might be obtained.

The Putative Class Action will likely be a long and costly litigation, with no certainty as to the expected outcome. Moreover, as described above, Wells Fargo is entitled to indemnification from R.E. Loans for any liability for any claims arising from providing the line of credit to R.E. Loans, including defense costs and attorneys' fees as and when they are incurred in defending against the Alleged Class Action Claims (with an exception for obligations incurred as a result of any gross negligence or willful misconduct of Wells Fargo). As a result, if the Putative Class Action proceeds, Wells Fargo may be able to receive indemnity for its defense costs, which alone would result in significantly less proceeds being distributed to the Noteholders, if Wells Fargo is successful in defending against the Putative Class Action.

If the Putative Class Action succeeds, the Putative Class Action Plaintiffs anticipate that the damage payments or settlement distributions to the Noteholders will greatly exceed the amount offered by the Wells Fargo settlement in the Plan. Of course, as indicated above, there is no guarantee that the Putative Class Action Plaintiffs will prevail in the Putative Class Action, nor can they predict the amount you are likely to receive as a class member if the Putative Class Action is successful. Wells Fargo believes that it will be successful in defending against the Putative Class Action and that it will recover all of its costs associated with the litigation as part of its secured indemnity claim. Thus, if Wells Fargo is correct, not only will the Noteholders recover nothing from Wells Fargo, but to the extent that funds are available to pay

the Noteholders from the liquidation of the Debtors' assets, those funds would first be used to pay Wells Fargo's legal expenses associated with defending the Putative Class Action until such expenses were paid in full.

The Noteholders are included within REL Class 8, which will receive distributions only if and when all senior classes, such as administrative costs, taxes, the entire secured claim of Wells Fargo and other categories of creditors, have been paid in full. It is not yet possible to predict whether any distributions will in fact be made to the Noteholders within REL Class 8, but it is clear, as stated in R.E. Loans' disclosure statement, that the Noteholders will not be paid in full.

Under the proposed settlement, if the Noteholders agree to release all existing or potential claims against Wells Fargo, in return, Wells Fargo will contribute $3 million to be distributed on a pro rata basis to all Noteholders. Up to 50% of this amount would then be paid to Wells Fargo pursuant to the Plan from the future liquidation proceeds that would otherwise be payable to the Noteholders, if any.

IN THE EVENT THAT THE NOTEHOLDERS RELEASE CLAIMS AGAINST THE WELLS FARGO GROUP PURSUANT TO THE VOLUNTARY THIRD-PARTY RELEASE, THE NOTEHOLDERS WILL NO LONGER BE ABLE TO RECOVER ANY AMOUNTS PURSUANT TO CLAIMS AGAINST WELLS FARGO, AS PRESENTLY ASSERTED IN THE PUTATIVE CLASS ACTION.

Notwithstanding anything contained herein, the Plan does not release the claims of any Person against anyone who is not a member of the Wells Fargo Group, including without limitation, Greenberg Traurig, LLP, Arminino McKenna, Kelly Ng, Bruce Horwitz, Barney Ng, Walter Ng, B-4 Partners or Bar-K, Inc.

D. Preservation of Causes of Action.

Pursuant to the Plan, on the Effective Date the Liquidating Trust will be vested with all Causes of Action, and the Reorganized Debtors will be vested with all Note Receivable Claims. The intent is not to release or waive any Cause of Action or Note Receivable Claim,

other than the rights against the Wells Fargo Group released pursuant to 10.6 of the Plan and any rights against the Noteholders that are settled under the Plan Compromise if Class 8 accepts the Plan. All parties against whom any of the Debtors may hold any claim, right or Cause of Action should refer to the reservation of rights set forth in detail in Section 7.16 of the Plan, which is incorporated herein by this reference, and the broad definitions of Causes of Action, Avoidance Actions, and Note Receivable Claims in the Plan.

The Causes of Action vested in the Liquidating Trust include, but are not limited to, all Causes of Action that the Estates may have against any party. The definition of "Causes of Action" in the Plan is intended to include any and all potential claims that the Debtors' Estates may have against any party, including, without limitation, Avoidance Actions and Potential Recovery Remedies against the Holders of Claims in Class 8, whether or not the specific claim is listed in the definition of "Causes of Action" in the Plan; provided, however, that the Causes of Action shall not include any claims released by the Wells Fargo Release or Note Receivable Claims. Note Receivable Claims also will be preserved under the Plan, but shall be revested in the Reorganized R.E. Loans, rather than transferred to the Liquidating Trust. If Class 8 votes to accept the Plan, Causes of Action will not include the rights compromised under the Plan Compromise, but will still include Potential Recovery Remedies.

The Liquidating Trust may seek to enforce Potential Recovery Remedies against any Noteholder that received a distribution from R.E. Loans after the consummation of the Exchange Offer. Potential Recovery Remedies include suing to recover the transfers made or seeking to disallow the remaining Claims of the recipient of payments made by R.E. Loans to Noteholders after November 1, 2007, until and unless all amounts paid to that recipient are returned. A list of the Noteholders that received transfers in excess of $10,000 after the consummation of the Exchange Offer is attached hereto as **Exhibit "B"** and incorporated herein by this reference. Any Noteholder listed on **Exhibit "B"** may be the subject of an action to enforce Potential Recovery Remedies. If DSI is classified in Class 8, Potential Recovery Remedies will also exist against DSI, unless the Bankruptcy Court rules that DSI must be

separately classified as holding a Class 9 Secured Claim, because DSI received a cash payment during 2010.

The Debtors have listed as Exhibit "1" to the Plan some of the Causes of Action that will be vested in the Liquidating Trust. The fact that a particular potential defendant is not listed in Exhibit "1" to the Plan or that all potential Causes of Action against each and every person or entity against which any of the Debtors have any Cause of Action currently does not provide a release to any party not mentioned or of any cause of action not mentioned. It is not possible at this time to estimate the aggregate recoveries on account of the Causes of Action to be transferred to the Liquidating Trust. The Debtors have not fully investigated the potential Causes of Action or the resources of potential defendants to pay on account of any judgments that may be obtained.

Attached hereto as **Exhibit "H"** and incorporated herein by this reference is a list of the third-party borrowers to which R.E. Loans made loans that have not yet been repaid or enforced through the foreclosure process. With respect to each of these loans and any loans with respect to which R.E. Loans has already foreclosed, R.E. Loans has Note Receivable Claims against the third-party borrower pursuant to the terms of the Notes Receivable and related deeds of trust or mortgages, and may have claims against the third-party borrower and/or its principals with respect to disposition of rents generated by the collateral, misrepresentations in connection with the original borrowing, waste, or conversion of rents. Under the Plan, all claims against each of these third-party borrowers and their principals are defined as "Note Receivable Claims," and are preserved by the Plan and vested in the Reorganized R.E. Loans. The aggregate agreed release prices of these Note Receivable Claims is $92.1 million. This may be the best indicia of value of these Note Receivable Claims. The aggregate unpaid principal balance of the Note Receivable Claims totals approximately $320 million.

In certain instances, R.E. Loans also may have claims against guarantors of the Note Receivable Claims, including, without limitation, Barney Ng on account of his guarantee

of the Note Receivable from 2718 Santa Rosa, LLC. These guarantee claims are preserved under the Plan and vested in Reorganized R.E. Loans.

E. Injunction Enjoining Holders of Claims Against Debtors.

The Plan is the sole means for resolving, paying or otherwise dealing with Claims and Interests. Except as provided in the Plan, as of the Effective Date, all non-Debtor entities are permanently enjoined from commencing or continuing in any manner, any Causes of Action, whether directly, derivatively, on account of or respecting any Causes of Action of the Debtors or the Reorganized Debtors, which the Liquidating Trust or the Reorganized Debtors, as the case may be, retain sole and exclusive authority to pursue in accordance with the terms of the Plan or which has been released pursuant to the Plan. Further, except as expressly provided in the Plan (including under the terms of the Wells Fargo Exit Facility), at all times on and after the Effective Date, all Persons or governmental entities who have been, are, or may be Holders of Claims against or Interests in the Debtors arising prior to the Effective Date, shall be permanently enjoined from taking any of the following actions on account of any such Claims or Interests, against the Debtors, their Estates, or their property (other than actions brought to enforce any rights or obligations under the Plan and any adversary proceedings pending in the Cases as of the Effective Date):

(i) commencing, conducting or continuing in any manner, directly or indirectly any suit, action, or other proceeding of any kind against the Debtors, their Estates, the Reorganized Debtors, the Liquidating Trust, or the Liquidating Trustee, their successors, or their respective property or assets (including, without limitation, all suits, actions, and proceedings that are pending as of the Effective Date which shall be deemed to be withdrawn or dismissed with prejudice as against the Debtors);

(ii) enforcing, levying, attaching, executing, collecting, or otherwise recovering by any manner or means whether directly or indirectly any judgment,

award, decree, or order against the Debtors, their Estates, the Reorganized Debtors, the Liquidating Trust, or the Liquidating Trustee, their successors, or their respective property or assets;

(iii) creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any lien, security interest or encumbrance against the Debtors, their Estates, the Reorganized Debtors, the Liquidating Trust, or the Liquidating Trustee, their successors, or their respective property or assets; and

(iv) proceeding in any manner in any place whatsoever against the Debtors, their Estates, the Reorganized Debtors, the Liquidating Trust, or the Litigation Trustee, their successors, or their respective property or assets, that does not conform to or comply with the provisions of the Plan.

F. Discharge of the Debtors.

The Confirmation Order will discharge all Claims against and Interests in the Debtors, except for the New Equity Interests in Reorganized R.E. Future and Reorganized Capital Salvage to be issued to Reorganized R.E. Loans and the New Equity Interests in Reorganized R.E. Loans to be issued to the Liquidating Trust under the Plan. No Holder of a Claim or Interest may receive any payment from, or seek recourse against, any assets that are to be distributed under the Plan other than assets required to be distributed to that Holder pursuant to the Plan. As of the Confirmation Date, all Persons and governmental entities are enjoined from asserting against any property that is to be distributed under the Plan any Claims, rights, causes of action, liabilities, or Interests based upon any act, omission, transaction, or other activity that occurred before the Confirmation Date, except as expressly provided in the Plan or the Confirmation Order. Upon the Effective Date and in consideration of the Distributions to be made hereunder, except as otherwise expressly provided for in the Plan or the Confirmation Order, each Holder of a Claim or Interest shall be deemed to have such Claim or Interest discharged to the fullest extent permitted by section 1141 of the Bankruptcy Code. Upon the Effective Date, all Entities shall be forever precluded and enjoined, pursuant to Section 524 of

the Bankruptcy Code, from asserting against the Debtors or their respective successors or assigns, including, without limitation, the Reorganized Debtors and the Liquidating Trust, or their respective assets, properties, or interests in property, any discharged Claim or Interest in the Debtors, any other or further Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not the facts or legal bases therefore were known prior to the Effective Date regardless of whether a proof of Claim or Interest was filed, whether the Holder thereof voted to accept or reject the Plan, or whether the Claim or Interest is an Allowed Claim or an Allowed Interest.

G. Revocation of the Plan.

The Debtors reserve the right to withdraw the Plan before the Confirmation Date, subject to consultation with Wells Fargo and the Noteholders Committee.

H. Retention of Jurisdiction.

The Court will retain and have exclusive jurisdiction over any matter arising under the Bankruptcy Code, arising in or related to the Cases or the Plan, or that relates to the matters described in Section 13.15 of the Plan.

I. Nonconsensual Confirmation.

In the event that the Classes entitled to vote to accept or reject the Plan fail to accept the Plan in accordance with Bankruptcy Code section 1129(a)(8), the Debtors reserve the right to modify the Plan in accordance with Bankruptcy Code section 1127(a) and/or to request confirmation of the Plan over the negative vote of any Class, pursuant to Bankruptcy Code section 1129(b). In accordance with section 1127 of the Bankruptcy Code, the Debtors reserve the right to alter, amend, modify, revoke or withdraw the Plan or any Plan exhibit or schedule, including amending or modifying it to satisfy the requirements of the Bankruptcy Code.

If Class 8 rejects the Plan, in order to confirm the Plan the Debtors will be required to subordinate the Class 8 Claims, as a part of the Plan confirmation process, and shall seek such subordination of the Liens and Claims of the Holders of Class 8 Claims at or before

the Confirmation Hearing. Absent the Plan Compromise, the Noteholders and DSI (unless its Claim is separately classified) will receive Subordinated Trust Interests.

J. No Waiver.

Neither the failure to list a Claim in the Schedules filed by the Debtors, the failure of any Person to object to any Claim for purposes of voting, the failure of any Person to object to a Claim or Administrative Claim prior to Confirmation or the Effective Date, the failure of any Person to assert a right of action prior to Confirmation or the Effective Date, the absence of a proof of Claim having been Filed with respect to a Claim, nor any action or inaction of any Person with respect to a Claim, Administrative Claim, or right of action other than a legally effective express waiver or release shall be deemed a waiver or release of the right of the Debtors or its successors or representatives, before or after solicitation of votes on the Plan or before or after Confirmation or the Effective Date to (a) object to or examine such Claim or Administrative Claim, in whole or in part or (b) retain and either assign or exclusively assert, pursue, prosecute, utilize, otherwise act or otherwise enforce any right of action. Please refer to Section 8.16 of the Plan.

K. Plan Modification.

Subject to the restrictions set forth in Bankruptcy Code section 1127, the Debtors reserve the right to alter, amend, or modify the Plan before it is substantially consummated (subject to consultation with Wells Fargo and the Noteholders Committee); provided, however, that Wells Fargo will not be obligated to provide the Wells Fargo Exit Facility unless Wells Fargo consents to any such modification.

VI.

CERTAIN RISK FACTORS TO BE CONSIDERED

Holders of Impaired Claims entitled to vote on the Plan should read and consider carefully the factors set forth below, as well as other information set forth in this Disclosure Statement and the documents delivered together herewith and/or incorporated by reference herein, prior to voting to accept or reject the Plan.

A. Risk that the Debtors Will Have Insufficient Cash for the Plan to Become Effective.

The Plan cannot be confirmed by the Court unless the Debtors have sufficient funds by the Effective Date to pay or reserve for all Allowed Administrative Claims (other than Deferred Administrative Fees), Allowed Priority Tax Claims and Allowed Priority Non-Tax Claims, unless particular Holders of such Claims agree to a deferred payment of their Claims. The Debtors believe that at the time of Confirmation they will have sufficient Cash to satisfy or reserve for all such Claims.

B. Risk Regarding the Distributions to Be Made to Creditors and Interest Holders.

There can be no certainty as to the distributions that Creditors will receive under the Plan. The most important factor that will impact the distributions to Noteholders and all General Unsecured Creditors is the question of whether the Holders of Class REL 8 Claims vote to accept the Plan. If the holders of Class REL 8 Claims vote in favor of the Plan and the Bankruptcy Court confirms the Plan, then Holders of Class REL 8 Claims will receive *Pro Rata* Beneficial Interests in the Liquidating Trust pari passu with Holders of General Unsecured Claims. If the Holders of Class REL 8 Claims vote to reject the Plan, then the Debtors will seek to subordinate the Class REL 8 Claims to the General Unsecured Claims, as a part of the Plan confirmation process, and if successful, Holders of Class REL 8 Claims will receive Subordinated Trust Interests.

In either case, Holders of Class REL 8 Claims, may be required to return funds received after consummation of the Exchange Agreement. Prepetition payments by R.E. Loans to the Holders of Class 8 Claims may be avoidable if R.E. Loans was insolvent when it made those payments. Under the Plan Compromise, the Debtors are not waiving the Potential Recovery Remedies.

Exhibit "J" sets forth what the Debtors believe are reasonable projections for the sale of the assets revested in the Reorganized Debtors and the repayment of the balance due to Wells Fargo under the Wells Fargo Exit Facility. Exhibit "J" shows net proceeds after

repayment of Wells Fargo in the range of $36.4 million to $63.6 million by the end of 2015. This does not include payment of any Claim by Wells Fargo under the indemnification provisions of the Wells Fargo Exit Facility. Exhibit "J" also shows that the Debtors should be able to meet the deadlines in the Wells Fargo Exit Facility. There is, however, no guarantee that the Debtors will be able to liquidate assets in the timeframe set forth in the projections or for the value set forth in the projections. Failure to liquidate sufficient assets to satisfy the covenants in the Wells Fargo Exit Facility could result in defaults under the Wells Fargo Exit Facility and the enforcement of rights and remedies by Wells Fargo. This could accelerate the liquidation of the assets revested in the Reorganized Debtors and reduce the proceeds that can be obtained from those assets. While the Debtors believe that the projections set forth in Exhibit "J" are reasonable and appropriate, there is no guarantee that they will be met.

Exhibit "I" sets forth the proceeds of the Debtors believe could be obtained in an immediate liquidation. If an event of default occurs under the Wells Fargo Exit Facility, the proceeds likely to be obtained for the assets revested in the Reorganized Debtor would likely be somewhere between the liquidation projections and the projections attached as Exhibit "J". Section VII.B.4, below, compares the likely proceeds available in a liquidation with the proceeds avoidable under the Plan.

In addition to the foregoing, the recoveries by all Holders of Allowed Claims will be affected by, among other things: (1) recoveries that the Liquidating Trustee generates from the Causes of Action; (2) recoveries that the Reorganized Debtors generate in connection with the disposition of the REO Property and the Note Receivable Claims; (3) the outcome of objections to Claims; and (4) the cost and expenses of litigation.

C. Bankruptcy Risks.

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests of such class. The Debtors believe that the classification of Claims and

Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Court would reach the same conclusion.

Even if all Classes of Claims that are entitled to vote accept the Plan, the Plan might not be confirmed by the Court. Section 1129(a) of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, that the value of distributions to dissenting creditors and equity security holders not be less than the value of distributions such creditors and equity security holders would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code. The Debtors believe that the Plan satisfies all of the requirements for confirmation of a plan under section 1129.

VII.

VOTING PROCEDURES AND REQUIREMENTS

IT IS IMPORTANT THAT HOLDERS OF CLAIMS EXERCISE THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN. All known Holders of Claims entitled to vote on the Plan have been sent a Ballot together with this Disclosure Statement. Such Persons should read the Ballot carefully and follow the instructions contained therein. Please use only the Ballot (or Ballots) that accompanies this Disclosure Statement.

FOR YOUR VOTE TO COUNT, YOUR BALLOT MUST BE ACTUALLY RECEIVED BY THE BALLOTING AGENT (AS DEFINED BELOW), NO LATER THAN 5:00 P.M., CENTRAL TIME, ON _____, 2012.

ANY BALLOT THAT IS EXECUTED AND RETURNED BUT WHICH DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN WILL BE DEEMED AN ACCEPTANCE OF THE PLAN. IF YOU HAVE ANY QUESTIONS CONCERNING VOTING PROCEDURES OR IF A BALLOT IS DAMAGED OR LOST, YOU MAY CONTACT DEBTORS' COUNSEL, STUTMAN, TREISTER & GLATT PROFESSIONAL CORPORATION, ATTN: KENDRA JOHNSON, 1901 AVENUE OF THE STARS, 12TH FLOOR, LOS ANGELES, CA 90067, TELEPHONE: (310) 228-5600, FAX: (310) 228-5788, EMAIL: KJOHNSON@STUTMAN.COM.

A. Parties In Interest Entitled To Vote.

Subject to the provisions of this Disclosure Statement Order, any Holder of a Claim against the Debtors as of the Petition Date, which Claim has not been disallowed by order of the Court and is not disputed, is entitled to vote to accept or reject the Plan if (1) such Claim or Interest is Impaired under the Plan and is not of a Class that is deemed to have accepted the Plan pursuant to sections 1126(f) of the Bankruptcy Code, and (2) either (a) such Holder's Claim has been scheduled by the Debtors (and such Claim is not scheduled as disputed, contingent, or unliquidated), or (b) such Holder has filed a proof of Claim or Interest on or before the Claims Bar Date. Unless otherwise permitted in the Plan, the Holder of any Disputed Claim or Disputed Interest is not entitled to vote on the Plan on account of such Disputed Claim or Disputed Interest unless the Court, upon application by such Holder, temporarily allows such Disputed Claim or Disputed Interest for the limited purpose of voting to accept or reject the Plan. A vote on the Plan may be disregarded if the Court determines, after notice and a hearing, that such vote was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code. The Debtors may file a motion to estimate various disputed, contingent and unliquidated claims for voting purposes.

B. Classes Impaired and Entitled To Vote Under The Plan.

The chart set forth at pages 11-13, *supra*, summarizes which Classes of Claims and Interests are Impaired and which Classes of Claims are Unimpaired under the Plan. No Class of Interests is entitled to vote. All Classes of Claims, except Classes 3 (*i.e.*, "Other Secured Claims") and 7 ("Subordinated Claims") are entitled to vote to accept or reject the Plan.

The Bankruptcy Code defines acceptance of a Plan by a class of claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that actually cast ballots for acceptance or rejection of the Plan. Thus, acceptance by a Class of Claims occurs only if at least two-thirds in dollar amount and a majority in number of the Holders of such Claims that actually vote cast their Ballots in favor of acceptance.

CREDITORS AND OTHER PARTIES IN INTEREST ARE CAUTIONED TO REVIEW THIS DISCLOSURE STATEMENT ORDER FOR A FULL UNDERSTANDING OF VOTING REQUIREMENTS, INCLUDING, WITHOUT LIMITATION, COMPLETION AND SUBMISSION OF BALLOTS.

VIII.

CONFIRMATION OF THE PLAN

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

A. Confirmation Hearing.

Section 1128(a) of the Bankruptcy Code requires the Court, after notice, to hold a hearing on confirmation of a Plan. By order of the Court, the Confirmation Hearing has been scheduled for _____, 2012 at ___:___ __.m. (Central Time) before the Honorable Judge Houser, Chief Judge, United States Bankruptcy Court for the Northern District of Texas, Dallas Division, 14th Floor, 1100 Commerce Street, Dallas, Texas 75242. The Confirmation Hearing may be adjourned from time to time by the Court without further notice except for an announcement made at the Confirmation Hearing or any adjournment thereof.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. Any objection to confirmation of the Plan must be in writing, conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Court, set forth the name of the objecting party, the nature and amount of the Claim or Interest held or asserted by the objecting party against the Debtors' Estates, the basis for the objection, and the specific grounds therefor. The objection, together with proof of service thereof, must then be filed with the Court, with a copy to chambers, and served upon: (1) counsel to the Debtors, Stutman, Treister & Glatt, 1901 Avenue of the Stars, 12th Floor, Los Angeles, California 90067, Attn: Jeffrey C. Krause; (2) counsel to the Debtors, Gardere Wynne Sewell LLP, 3000 Thanksgiving Tower, 1601 Elm Street, Dallas, Texas 75201-4761, Attn: Holland Neff O'Neil; (3) Office of the United States Trustee, Earl Cabell Federal Building, 1100 Commerce Street,

Room 976, Dallas, Texas 75242; (4) counsel to Wells Fargo, David Weitman, K&L Gates LLP, 1717 Main Street, Suite 2800, Dallas, Texas 75201; and (5) counsel to the Noteholders Committee, Charles R. Gibbs, Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201.

Objections to confirmation of the Plan are governed by Rule 9014 of the Federal Rules of Bankruptcy Procedure. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY AND PROPERLY SERVED AND FILED, THE COURT MAY NOT CONSIDER IT.

B. Requirements for Confirmation of the Plan.

At the Confirmation Hearing, the Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation are that the Plan (1) is accepted by all Impaired Classes of Claims and Interests or, if rejected by an Impaired Class, that the Plan "does not discriminate unfairly" and is "fair and equitable" as to any Class that does not accept the Plan, (2) is feasible, and (3) is in the "best interest" of holders of Claims and Interests Impaired under the Plan.

1. Acceptance.

The holders of Claims in the following Classes are entitled to vote on the Plan: REL Class 1, REL Class 3, REL Class 4, REL Class 5, REL Class 6, REL Class 8, REL Class 9, CS Class 1, CS Class 3, CS Class 4, CS Class 5, CS Class 6, REF Class 1, REF Class 3, REF Class 4, REF Class 5, and REF Class 6. These Classes must accept the Plan in order for the Plan to be confirmed without application of the "fair and equitable test," described below, to such Class. As stated above, a Class of Claims will have accepted the Plan if the Plan is accepted by at least two-thirds in dollar amount, and a majority in number of the Claims of each such Class (other than any Claims of creditors designated under section 1126(e) of the Bankruptcy Code) that have voted to accept or reject the Plan.

Claims in the following Classes are Unimpaired by the Plan: Class 2. The holders thereof are conclusively presumed to have accepted the Plan.

2. Fair and Equitable Test.

The Debtors will seek to have the Plan confirmed notwithstanding the rejection or deemed rejection of the Plan by any Impaired Class of Claims or Interests. To obtain such confirmation, it must be demonstrated to the Court that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such dissenting Impaired Class. A plan does not discriminate unfairly if the legal rights of a dissenting class are treated in a manner consistent with the treatment of other classes whose legal rights are substantially similar to those of the dissenting class, and if no class receives more than it is entitled to for its claims or interests. The Debtors believe that the Plan satisfies this requirement.

The Bankruptcy Code establishes different "fair and equitable" tests for secured claims, unsecured claims and interests, as follows:

a. Secured Claims.

Either the Plan must provide (i) that the Holders of such Claims retain the Liens securing such claims, whether the property subject to such Liens is retained by the Debtors or transferred to another entity, to the extent of the Allowed amount of such Claims, and each Holder of a Claim receives deferred cash payments totaling at least the Allowed amount of such Claim, of a value, as of the Effective Date of the Plan, of at least the value of such Holder's interest in the Estate's interest in such property; (ii) for the sale of any property that is subject to the Liens securing such Claims, free and clear of such Liens, with such Liens to attach to the proceeds of such sale; or (iii) for the realization by such Holders of the indubitable equivalent of such Claims. If DSI's Claim is separately classified in Class 9, the Debtors believe that the Plan provides DSI with the indubitable equivalent by issuing to DSI the New Second Security Agreement.

b. Unsecured Claims.

Either (i) each Holder of an Impaired Unsecured Claim receives or retains under the Plan property of a value equal to the amount of its Allowed Claim, or (ii) the holders of

Claims and Interests that are junior to the Claims of the dissenting Class will not receive any property under the Plan.

c. Interests.

The holders of Interests in the Debtors will not receive any property under the Plan.

THE DEBTORS BELIEVE THAT THE PLAN MAY BE CONFIRMED ON A NONCONSENSUAL BASIS (PROVIDED AT LEAST ONE IMPAIRED CLASS OF CLAIMS VOTES TO ACCEPT THE PLAN). ACCORDINGLY, THE DEBTORS WILL DEMONSTRATE AT THE CONFIRMATION HEARING THAT THE PLAN SATISFIES THE REQUIREMENTS OF SECTION 1129(b) OF THE BANKRUPTCY CODE AS TO ANY NON-ACCEPTING CLASS.

3. Feasibility.

The Bankruptcy Code requires that confirmation of a plan is not likely to be followed by the liquidation, or the need for further financial reorganization of a debtor, unless such liquidation or reorganization is proposed in the plan. The liquidity required by the Reorganized Debtors to meet their ongoing obligations will be provided by the Wells Fargo Exit Facility and the disposition of REO Property and Notes Receivable owned by the Reorganized Debtors.

The Debtors have prepared a set of projections showing their anticipated future sales, expenditures, and borrowings under the Wells Fargo Exit Facility, a true and correct copy of which is attached hereto as **Exhibit "I"** and incorporated herein by this reference. These projections show that if the Debtors sell assets in the projected time frame, the Wells Fargo Exit Facility will provide adequate liquidity to enable the Debtors to meet their obligations under the Plan.

There is no absolute guarantee that the Debtors will be able to liquidate assets in the timeframe required to comply with their obligations under the Plan, re-pay the Wells Fargo

Exit Facility, and avoid any future liquidation. Based on the Debtors' projections and the timeframe permitted by the Wells Fargo Exit Facility, the Debtors believe that the Plan satisfies the "feasibility" requirement of Court § 1129(a)(11).

4. "Best Interests" Test.

With respect to each Impaired Class of Claims and Interests, confirmation of the Plan requires that each such holder either (a) accepts the Plan, or (b) receives or retains under the Plan property of a value, as of the Effective Date of the Plan, that is not less than the value such holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

This analysis requires the Court to determine what the holders of Allowed Claims and Allowed Interests in each Impaired Class would receive from the liquidation of the Debtors' Assets in the context of a chapter 7 liquidation case. If the Debtors' cases were converted to cases under chapter 7, the chapter 7 trustee would have no financing facility and would be forced to liquidate assets on a very expedited basis. The liquidation of assets, particularly the Notes Receivable, on a "fire sale" basis would substantially reduce the proceeds received. Substantially all of the Notes Receivable held by R.E. Loans are currently in default. The underlying real property securing the Notes Receivable generates no current income. R.E. Loans has actively marketed the Notes Receivable during the Chapter 11 Cases and has sold any of the Notes Receivable for which it received offers that it believed were reasonable relative to the value of the underlying real property. Under these circumstances, a purchaser for any of the remaining defaulted Notes Receivable is likely to pay less than a purchaser would pay for the underlying real estate if R.E. Loans were to complete a foreclosure sale and obtain title to the real property. In a chapter 7 case, the trustee probably would not have the luxury of time and available financing to complete those foreclosure sales and engage in an orderly marketing effort with respect to the underlying real property. This would substantially reduce the proceeds received.

The Debtors have attached hereto as **Exhibit "J"** and incorporated herein by this reference a liquidation analysis, which sets forth the Debtors' best estimate of what a chapter 7

trustee might generate from a disposition of the REO Property and Notes Receivable in an immediate liquidation process.[9] The Debtors believe that such a process would not likely be completed much before the end of 2012, and that a "fire sale" of all of the Debtors' assets, including, without limitation, the Notes Receivable, would result in a substantial reduction in the gross proceeds received from selling these assets. The range of potential liquidation values is set forth in **Exhibit "J"**. At the lower end of that range, a chapter 7 trustee would not be able to pay in full all secured property taxes and the balance owing to Wells Fargo and, therefore, the Noteholders and General Unsecured Creditors would receive nothing from the REO Property and the Notes Receivable. At the higher end of the range, the chapter 7 trustee would be able to meet these senior secured obligations, but would have only about $28.3 million from the REO Property and Notes Receivable for distribution to creditors junior to Wells Fargo.

While the orderly disposition of assets over the next several years pursuant to the Plan will delay distribution and the Reorganized Debtors will have to pay carrying costs while they obtain title to the Notes Receivable collateral and market the REO Property that they will acquire, the net recovery to Noteholders and General Unsecured Creditors will be substantially increased through this process, when compared with an immediate liquidation of the assets currently owned by the Debtors in chapter 7 cases.

The liquidation analysis attached hereto as **Exhibit "J"** shows aggregate net proceeds from the REO Property and Notes Receivable in the range of $73 million to $117.3 million. At the low end of this range Noteholders would receive nothing from the REO Property and Notes Receivable and Wells Fargo would have a $15 million deficiency claim that might be paid from litigation recoveries. The projections for the net proceeds from the REO Property and

[9] The Debtors have not projected what might be generated from the Causes of Action. Under the Plan, Causes of Action are vested in the Liquidating Trust and will be pursued by an independent trustee. If the Debtors' cases were converted to chapter 7 cases, these same Causes of Action would be pursued by the chapter 7 trustee. The Debtors believe that the recoveries under either scenario are unpredictable and are likely to be similar in each scenario, though there may be a lower recovery in a chapter 7 case because of the absence of any funding to pursue these Causes of Action.

Notes Receivable that will be available after paying ongoing carrying costs and operating costs if the Plan is confirmed and the Wells Fargo Exit Facility provides liquidity to enable the Debtors to engage in a more orderly sale process (as set forth in **Exhibit "I"**) is estimated to be in the range of $36.4 million to $63.6 million. Therefore, based on these projections the net cash generated form the Notes Receivable and the REO Properties will be substantially greater if the Debtors proceed with the more orderly process funded by the Wells Fargo Exit Facility. The projections do not discount this gross benefit to present value. None of these projections include any litigation recoveries from the Causes of Action by the Liquidating Trust or any payments to Wells Fargo on account of its indemnification claims.

IX.

ALTERNATIVES TO CONFIRMATION OF THE PLAN

The Debtors have evaluated all alternatives to the Plan. After studying these alternatives, the Debtors have concluded that the Plan is the best alternative, and will maximize recoveries by parties in interest, assuming confirmation of the Plan.

If the Plan is not confirmed and the Debtors are required to engage in an immediate liquidation process, the net proceeds obtainable will be substantially reduced. See Section VIII.B.3, above, and Compare Exhibit "I" to Exhibit "J".

Based on the foregoing, the Debtors respectfully submit that the Plan is the best available option for all Creditors, including, without limitation, the Noteholders. The Debtors believe that the Plan fairly adjusts the rights of various Classes of Creditors consistent with the distribution scheme embodied in the Bankruptcy Code and enables such Person to realize the most possible under the circumstances. The Plan provides for no distributions to Interest holders on account of their equity.

X.

CERTAIN U.S. FEDERAL TAX CONSEQUENCES OF THE PLAN

A. Introduction.

The following discussion summarizes certain federal income tax consequences of

the implementation of the Plan to the Holders of Claims. The following summary does not address the federal income tax consequences to Holders of Claims that are not Impaired by the Plan, or to Interest Holders who will receive nothing under the Plan. The following summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations promulgated and proposed thereunder, judicial decisions and published administrative rules and pronouncements of the Internal Revenue Service ("**IRS**") as in effect on the date hereof. Changes in such rules or new interpretations thereof may have retroactive effect and could significantly affect the federal income tax consequences described below. Further, any discussion of the Liquidating Trust and the powers, obligations and/or actions of the Liquidating Trustee that may be set forth below is subject to the applicable provisions of the Plan and the Liquidating Trust Agreement; if and to the extent that there is any inconsistency between such discussions herein, on the one hand, and the Plan and the Liquidating Trust Agreement, on the other hand, the terms of the latter documents shall control. Creditors should read the Plan and the Liquidating Trust Agreement in their entirety.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to the interpretation that the IRS or a reviewing court might adopt. In addition, this summary does not address foreign, state or local tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax-exempt organizations, investors in pass-through entities, Holders that hold Claims as part of a hedge, straddle or conversion, Holders who acquired their Claims as compensation, and Holders who do not hold their Claims as capital assets).

ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS

NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR INTEREST. ALL HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, PLEASE BE ADVISED THAT ANY WRITTEN U.S. TAX INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENT) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF (1) AVOIDING PENALTIES UNDER THE INTERNAL REVENUE CODE OR (2) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY TRANSACTION OR MATTER ADDRESSED HEREIN.

B. Consequences to the Debtors.

R.E. Loans is not required to federal income pay taxes on any income that it may generate because it is a single member LLC that is a disregarded entity for federal income tax purposes. R.E. Loans' sole member, B-4 Partners, is a limited liability company that is taxed as a partnership for federal income tax purposes. As a result, B-4 Partners' gains and losses are passed through to its three members (Kelly Ng, Walter Ng, and Barney Ng). If B-4 Partners has income gains, or losses such income, gains or losses are allocated to its members. R.E. Loans will not owe federal income taxes on income, gains or losses generated by R.E. Loans or R.E. Future.

C. Consequences to Holder of General Unsecured Claims.

1. Immediate Recognition of Loss Generally.

One of the benefits of the Plan and the creation of the Liquidating Trust is that, if respected the structure will trigger the immediate right to take a tax loss by each Noteholder and each Holder of a General Unsecured Claim that has a basis in its Exchange

Note or General Unsecured Claim equal to the face amount of that Claim, because the face amount of the Claims will be substantially greater than the fair market value of the Deemed Transferred Assets (as defined below).

Pursuant to the Plan, on the Effective Date, each Holder of a Class 5 Claim (General Unsecured Claims, excluding Intercompany Claims) will receive an allocated Liquidating Trust Interest, which is a Beneficial Interest in the Liquidating Trust, entitling the holder thereof to distributions from the Liquidating Trust as provided for in the Plan and in the Liquidating Trust Agreement. If Class 8 votes to accept the plan and thereby accept the Plan Compromise, Holders of Allowed Class 8 Claims will also receive Beneficial Interests in the Liquidating Trust.

In general, each holder of an Allowed Claim in these Classes will recognize gain or loss in an amount equal to the difference between (i) the fair market value of its undivided interest in the Deemed Transferred Assets (other than in respect of any Claim for accrued but unpaid interest, and excluding any portion required to be treated as imputed interest due to the post-Effective Date Distribution of such consideration upon the resolution of Disputed Claims), and (ii) such holder's adjusted tax basis in its Claim (other than any Claim for accrued but unpaid interest). For a discussion of the U.S. federal income tax consequences of any Claim for accrued interest, see Section X.B.2 below.

If the Noteholders vote to reject the Plan and the Debtors subordinate Class 8 Claims to the Allowed Unsecured Claims, as a part of the Plan confirmation process, the Noteholders (and DSI) will receive the Subordinated Trust Interests. Those interests will entitle the Noteholders to distribution from the Liquidating Trust only after the payment in full of the Allowed General Unsecured Claims. If this occurs, the fair market value of the assets transferred to the Liquidating Trust which are deemed to be for the benefit of the Noteholders will be the net fair market value of all Deemed Transferred Assets, minus the amounts owing to General Unsecured Creditors. As a result, the tax loss generated for the Noteholders at the time of the transfer of assets to the Liquidating Trust will be greater, because the net value of the assets

transferred to the Liquidating Trust for their benefit will be less.

As discussed below, the Debtors believe that the Liquidating Trust has been structured to qualify as a "grantor trust" for U.S. federal income tax purposes. Accordingly, each holder of an Allowed Claim receiving a Beneficial Interest in the Liquidating Trust will be treated for U.S. federal income tax purposes, only, as directly receiving (and as a direct owner of) its allocable percentage of the assets that are deemed transferred to the Liquidating Trust. Because R.E. Loans and R.E. Future are disregarded entities for tax purposes the assets deemed transferred to the Liquidating Trust are the Causes of Action, the Cash transferred to the Liquidating Trust, all assets re-vested in Reorganized R.E. Loans and in Reorganized R.E. Future, and the New Equity Interest issued by Capital Salvage (collectively the "**Deemed Transferred Assets**"). As set forth in the Liquidating Trust Agreement, as soon as practicable after the Effective Date, and thereafter as may be required, the Liquidating Trustee will (if reasonably deemed necessary or desirable by the Liquidating Trustee) make or have caused to be made a good faith valuation of the Deemed Transferred Assets, and all parties, including the recipients of Beneficial Interests and Subordinated Trust Interests must consistently use such valuation for all federal income tax purposes.

Due to the possibility that a holder of a Liquidating Trust Interest may receive more than one Distribution subsequent to the Effective Date, the imputed interest provisions of the Code may apply to treat a portion of such later Distributions to such holders as imputed interest. In addition, it is possible that any loss realized by a recipient of any Liquidating Trust Interest or Subordinated Trust Interest may be deferred until all subsequent Distributions relating to Disputed Claims are determined, and that a portion of any gain realized may be deferred under the "installment method" of reporting. Holders of such interests are urged to consult their tax advisors regarding the possibility for deferral, and the potential ability to elect out of the installment method of reporting any gain realized in respect of their Claims.

After the Effective Date, any amount a holder receives as a Distribution from the Liquidating Trust in respect of its Beneficial Interest (other than as a result of the subsequent

disallowance of Disputed Claims) should not be included for federal income tax purposes as an amount realized in respect of its Allowed Claim, but should be separately treated as a distribution received in respect of such holder's ownership interest in the Liquidating Trust.

Where a holder recognizes gain or loss in respect of its Claim, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the Claim constitutes a capital asset in the hands of the holder and how long it has been so held, whether the holder had acquired the Claim at a market discount, and whether and to what extent the holder had previously claimed a bad debt deduction. A holder that purchased its Claim from a prior holder at a market discount may be subject to the market discount rules of the Code. Under those rules, assuming that the holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of such Claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Claim as of the date of the exchange.

In general, a holder's tax basis in its Beneficial Interest will equal the fair market value of its proportionate share of the Deemed Transferred Assets on the Effective Date. The holding period for such assets generally will begin the day following the Effective Date.

2. Distributions in Payment of Accrued But Unpaid Interest.

Distributions to any Holder of an Allowed Claim will be allocated first to the original principal portion of such Claim as determined for federal income tax purposes, and then, to the extent the consideration exceeds such amount, to the portion of such Claim representing accrued but unpaid interest. However, there is no assurance that the IRS would respect such allocation for federal income tax purposes.

To the extent a holder of debt receives an amount of Cash or property in satisfaction of interest accrued during its holding period, such holder generally recognizes taxable interest income in such amount (if not previously included in the holder's gross income).

Conversely, a holder generally recognizes a deductible loss to the extent any accrued interest claimed was previously included in its gross income and is not paid in full. Each holder is urged to consult its tax advisor regarding the allocation of consideration and the deductibility of unpaid interest for U.S. federal income tax purposes.

3. Tax Treatment of the Liquidating Trust and Holders of Beneficial Interests Therein.

On the Effective Date, the Liquidating Trust will be established for the benefit of recipients of Beneficial Interests and Subordinated Trust Interests, if any. The Liquidating Trust is intended to qualify as a liquidating trust for federal income tax purposes. In general, such a trust is not a separate taxable entity, but rather is treated for federal income tax purposes as a "grantor" trust (*i.e.*, a disregarded entity). However, merely establishing a trust as a liquidating trust does not ensure that it will be treated as a grantor trust for U.S. federal income tax purposes. The risk that it will not be treated as a grantor trust may be greater if the Plan Compromise is not implemented, because if the Plan Compromise is not implemented there will be two classes of beneficial Interests issued by the Liquidating Trust. The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684, set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Liquidating Trust has been structured with the intention of complying with such general criteria. Pursuant to the Plan, and in conformity with Revenue Procedure 94-45, all parties (including the Debtors, the Reorganized Debtors, the Liquidating Trustee, and the Beneficiaries of the Liquidating Trust) are required for federal income tax purposes to treat the Liquidating Trust as a grantor trust of which the Beneficiaries are the owners and grantors. This discussion assumes that the Liquidating Trust will be so respected for U.S. federal income tax purposes. However, no ruling has been requested from the IRS and no opinion of counsel has been requested concerning the tax status of the Liquidating Trust as a grantor trust. Accordingly, there can be no assurance that the IRS would not take a contrary position. If the IRS were to challenge successfully such classification,

the federal income tax consequences to the Liquidating Trust and the Beneficiaries could vary from those discussed herein.

For U.S. federal income tax purposes, only, all parties (including the Debtors, the Reorganized Debtors, the Liquidating Trustee, and the Beneficiaries) must treat the transfer of the Deemed Transferred Assets to the Liquidating Trust, in accordance with the terms of the Plan and the Liquidating Trust Agreement, as (i) a transfer of such Deemed Transferred Assets directly to the Beneficiaries, (ii) followed by such Beneficiaries' transfer (in exchange for the New Equity Interest in Reorganized R.E. Loans) of the Deemed Transferred Assets to Reorganized R.E. Loans, which is treated as a limited liability company with multiple members, and, thus, taxed as a partnership.

If the Beneficiaries' interest in Reorganized R.E. Loans were considered publicly traded or readily tradable on a secondary market (or the substantial equivalent thereof) for federal income tax purposes, Reorganized R.E. Loans might be characterized as a "publicly traded partnership," and taxed as a corporation (rather than a partnership). In that event, the after-tax return to the Beneficiaries may be reduced, possibly substantially. Reorganized R.E. Loans intends to satisfy one or more regulatory safe harbors relating to limiting the Beneficiaries' rights to transfer their interests in Reorganized R.E. Loans. However, no ruling from the IRS or opinion from counsel will be obtained regarding whether Reorganized R.E. Loans is a "publicly traded partnership." This discussion of certain U.S. federal tax consequences of the Plan assumes that Reorganized R.E. Loans will be taxed as a partnership for federal income tax purposes.

Under this analysis, the Liquidating Trust is a disregarded entity solely for federal income tax purposes and, consistent therewith, all parties must treat the Liquidating Trust as a grantor trust of which the Beneficiaries are the owners and grantors. Thus, such Beneficiaries will be treated as the direct owners of their respective undivided interests in Reorganized R.E. Loans, which owns the Deemed Transferred Assets for all U.S. federal income tax purposes. Each such Person will have an initial tax basis in its ownership interest in Reorganized R.E.

Loans equal to such person's proportionate share of the fair market value of the Deemed Transferred Assets received on the Effective Date. As set forth in the Liquidating Trust Agreement, as soon as practicable after the Effective Date, and thereafter as may be required, the Liquidating Trustee will (if reasonably deemed necessary or desirable by the Liquidating Trustee) make or have caused to be made a good faith valuation of the Deemed Transferred Assets, and all parties, including the Beneficiaries, must consistently use such valuation for all federal income tax purposes.

Based on the foregoing, the Debtors believe that implementation of the Plan should result in the recognition of large losses by each Noteholder that has a tax basis in its Exchange Note equal to the face amount of that Exchange Note, upon the creation of the Liquidating Trust and transfer of the Deemed Transferred Assets to the Liquidating Trust. The Debtors believe that most of the Noteholders have a tax basis in their Notes approximately equal to the face amount of the Notes. The value of the assets that will be deemed to be transferred to the Liquidating Trust for tax purposes has not yet been finally determined, but it will be substantially less than the aggregate face amount of the Notes. As a result, the Debtors believe that each Holder of a Note is likely to realize a loss in an amount equal to that Noteholder's tax basis in the Note, minus the fair market value of the Noteholder's *Pro Rata* share of the Deemed Transferred Assets.

Accordingly, except as discussed below (in connection with pending Disputed Claims), each recipient of an Liquidating Trust Interest or a Subordinated Liquidating Trust Interest will be required to report on its U.S. federal income tax return its allocable share of any income, gain, loss, deduction, or credit recognized or incurred by the Liquidating Trust, in accordance with its relative Beneficial Interest.[10] The character of those items of income,

[10] Among other notices and information that may be provided by the Liquidating Trustee in accordance with the Plan and Liquidating Trust Agreement, pursuant to the Liquidating Trust Agreement, following the end of each calendar year, the Liquidating Trustee will promptly submit to each Beneficiary appearing in its records during such year a separate statement setting forth the information necessary for such Beneficiary to determine its share of items of income, gain, loss, deduction, or credit and will instruct each Beneficiary to

deduction, and credit to any holder and the ability of such holder to benefit from any deduction or losses may depend on the particular situation of such holder.

The U.S. federal income tax reporting obligations of a holder is not dependent upon the Liquidating Trust distributing any Cash or other proceeds. Therefore, a holder may incur a federal income tax liability with respect to its allocable share of the income of the Liquidating Trust even if that holder has not received any prior or concurrent Distribution.

Subject to the Liquidating Trust Agreement, absent definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the issuance of applicable Treasury Regulations, the receipt by the Liquidating Trustee of a private letter ruling if the Liquidating Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Liquidating Trustee), the Liquidating Trustee will:

(i) treat all Deemed Transferred Assets allocable to, or retained on account of, Disputed Claims, as a discrete trust for federal income tax purposes, consisting of separate and independent shares to be established in respect of each Disputed Claim, in accordance with the trust provisions of the Code (sections 641 *et seq.* of the Code);

(ii) treat as taxable income or loss of this separate trust with respect to any given taxable year the portion of the taxable income or loss of the Liquidating Trust that would have been allocated to the holders of such Disputed Claims had such Claims been Allowed on the Effective Date (but only for the portion of the taxable year with respect to which such Claims are unresolved);

(iii) treat as a distribution from this separate trust any increased amounts distributed by the Liquidating Trust as a result of any Disputed Claim resolved earlier in the taxable year, to the extent such distribution relates to taxable income or loss of this separate trust determined in accordance with the provisions hereof, and

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report such items on its federal income tax returns (and state and local tax returns, as applicable).

(iv) to the extent permitted by applicable law, report consistently for state and local income tax purposes.

In addition, pursuant to the Liquidating Trust Agreement, all Beneficiaries are required to report consistently with such treatment. Accordingly, subject to issuance of definitive guidance, the Liquidating Trustee will report on the basis that any amounts earned by this separate trust and any taxable income of the Liquidating Trust allocable to it are subject to a separate entity level tax, except to the extent such earnings are distributed during the same taxable year. Any amounts earned by or attributable to the separate trust and distributed to a Beneficiary during the same taxable year will be includible in such Beneficiary's gross income.

4. Withholding.

All Distributions to Holders of Allowed General Unsecured Claims are subject to any applicable tax withholding. Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the then applicable withholding rate (currently 28%). Backup withholding generally applies if the holder (a) fails to furnish its social security number or other taxpayer identification number ("**TIN**"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends, or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY. ALL HOLDERS OF CLAIMS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN

XI.

SECURITIES LAW MATTERS

A. In General.

The Plan provides for the establishment of the Liquidating Trust and for the issuance of beneficial interests therein. Beneficial interests in trusts may be deemed to be "securities" under applicable federal and state securities laws. However, as discussed herein, the Debtors do not believe that either the Beneficial Interests or the Subordinated Trust Interests will constitute "securities" for purposes of applicable nonbankruptcy law. Alternatively, even if the Trust Interests constitute "securities," the Debtors believe that these would be exempt from registration pursuant to Bankruptcy Code section 1145(a)(1). Finally, the Debtors do not believe that the Investment Company Act of 1940, as amended (the "**Investment Company Act**") is applicable in that the Liquidating Trust will not be, and is not controlled by, an "investment company" for purposes of that Act.

1. Initial Issuance.

Unless an exemption is available, the offer and sale of a security generally is subject to registration with the United States Securities and Exchange Commission (the "**SEC**") under Section 5 of the Securities Act of 1933, as amended (the "**Securities Act**"). In the opinion of the Debtors, the Trust Interests do not constitute "securities" within the definition of Section 2(11) of the Securities Act and corresponding definitions under state securities laws and regulations ("**Blue Sky Laws**") because generally they are non-transferable. Accordingly, the Trust Interests should be issuable in accordance with the Plan without registration under the Securities Act or any Blue Sky Law.

Alternatively, in the event that the Trust Interests are deemed to constitute securities, section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under the Securities Act and Blue Sky Laws if three principal requirements are satisfied:

A. The securities are offered and sold under a plan of reorganization and are securities of the debtor, of an affiliate of the debtor participating in a joint plan with the debtor, or of a successor to the debtor under the plan;

B. The recipients of the securities hold a pre-petition or administrative claim against the debtor or an interest in the debtor; and

C. The securities are issued entirely in exchange for recipient's claim against or interest in the debtor, or principally in such exchange and partly for cash or property.

If and to the extent that the Trust Interests may constitute securities, the Debtor believes that these beneficial interests issued in respect of Allowed Claims will qualify as securities "of the debtor . . . or of a successor to the debtor" pursuant to section 1145(a)(1). In addition, the Trust Interests will be issued entirely in exchange for Claims. Thus, the Debtors believe that the issuance of the Beneficial Interests and the Subordinated Trust Interests pursuant to the Plan will satisfy the applicable requirements of section 1145(a)(1) of the Bankruptcy Code, and that such issuance should be exempt from registration under the Securities Act and any applicable Blue Sky Law.

The Debtors believe that their reliance upon the foregoing exemptions in respect of the issuance of the Beneficial Interests and the Subordinated Trust Interests is consistent with positions taken by the SEC with respect to similar transactions and arrangements by other chapter 11 debtors in possession. However, the Debtors have not sought any "no-action" letter by the SEC with respect to any such matters, and therefore no assurance can be given regarding the availability of any exemptions from registration with respect to any securities, if any, issued pursuant to the Plan.

2. Transfer of Beneficial Interests And Subordinated Trust Interests.

The Beneficial Interests and the Subordinated Trust Interests are subject to transfer restrictions under the terms of the Liquidating Trust Agreement. They cannot be assigned or transferred other than by death, by operation of law, or from a qualified retirement account to the beneficiary of that account, or otherwise in compliance with the securities laws (as

more specifically set forth in the Liquidating Trust Agreement) and will not be represented by certificates.

3. Exchange Act Compliance.

Section 12(g) of the Exchange Act applies only to a company that has both (A) total assets in excess of $10 million and (B) a class of equity securities held by more than 500 persons as of the end of its fiscal year. The Debtors believe that, although the Liquidating Trust may be deemed to have both total assets in excess of $10 million and a class of equity securities held by more than 500 persons, the Liquidating Trust should not be required to register under Section 12(g) of the Exchange Act. The Debtors have been advised that the staff of the SEC has issued no-action letters with respect to the non-necessity of Exchange Act registration of a bankruptcy plan trust when the following are true:

A. the beneficial interests in the trust are not represented by certificates or, if they are, the certificates bear a legend stating that the certificates are transferable only upon death or by operation of law;

B. the trust exists only to effect a liquidation and will terminate within a reasonable period of time; and

C. the trust will issue annual unaudited financial information to all beneficiaries.

Based on the foregoing, the Debtors believe that the Liquidating Trust will not be subject to registration under the Exchange Act. However, the views of the SEC on the matter have not been sought by the Debtors and, therefore, no assurance can be given regarding this matter.

4. Investment Company Act.

As the assets of the Liquidating Trust do not consist of securities issued by the Debtors or any other person, and this trust is organized as a liquidating Person in the process of liquidation, the Debtors do not believe that the Liquidating Trust fall within the definition of

"investment company" in any manner requiring such entity to register under the Investment Company Act.

B. Compliance if Required.

Notwithstanding the preceding discussion, if the Liquidating Trustee determines, with the advice of counsel, that the Liquidating Trust is required to comply with the registration and reporting requirements of the Exchange Act or the Investment Company Act, then prior to the registration of the Liquidating Trust under the Exchange Act or the Investment Company Act, the Liquidating Trustee shall seek to amend the Liquidating Trust Agreement to make such changes as are deemed necessary or appropriate to ensure that the Liquidating Trust is not subject to registration or reporting requirements of the Exchange Act, or the Investment Company Act, and the Liquidating Trust Agreement, as so amended, shall be effective after notice and opportunity for a hearing provided to the Post Effective Date Service List, and the entry of a Final Order of the Court. If the Liquidating Trust Agreement, as amended, is not approved by Final Order of the Court or the Court otherwise determines in a Final Order that registration under one or both of the Exchange Act or Investment Company Act is required, then the Liquidating Trustee shall take such actions as may be required to satisfy the registration and reporting requirements of the Exchange Act and/or the Investment Company Act, as applicable.

XII.

RECOMMENDATION

The Debtors recommend that all Creditors receiving a Ballot vote in favor of the Plan. The Debtors believe that the Plan maximizes recoveries to all Creditors and, thus, is in their best interests. The Plan as structured, among other things, allows said parties to participate in distributions in excess of those that would be available if the Debtors' assets were liquidated under chapter 7 of the Bankruptcy Code.

Dated: April 26, 2012

R.E. LOANS, LLC,
Chapter 11 Debtor and Debtor in Possession

By: */s/ James Weissenborn*
James A. Weissenborn, managing partner of Mackinac Partners, sole manager of R.E. Loans, LLC

Dated: April 26, 2012

CAPITAL SALVAGE, a California corporation,
Chapter 11 Debtor and Debtor in Possession

By: */s/ James Weissenborn*
Name: James A. Weissenborn
Title: President

Dated: April 26, 2012

R.E. FUTURE, LLC,
Chapter 11 Debtor and Debtor in Possession

By: */s/ James Weissenborn*
James A. Weissenborn, managing partner of Mackinac Partners, sole manager of R.E. Loans, LLC

DATED: April 26, 2012

Respectfully submitted by:

/s/ Virgil Ochoa

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Exhibits to the Disclosure Statement will be filed with the Bankruptcy Court in advance of the deadline for objecting to the Disclosure Statement

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